

**ILLINOIS MUNICIPAL ELECTRIC AGENCY**

Springfield, Illinois

FINANCIAL STATEMENTS

Including Independent Auditors' Report

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

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Illinois Municipal Electric Agency (IMEA), as of and for the years ended April 30, 2018 and 2017, 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, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

*Required Supplementary Information*

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
July 20, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended April 30, 2018 and 2017

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, 2018 and 2017. Please read this narrative in conjunction with the accompanying financial statements and the accompanying notes to financial statements.

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### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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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 principals 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.

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### **IMEA FINANCIAL ANALYSIS**

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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, 2018 and 2017

## IMEA FINANCIAL ANALYSIS (cont.)

**Table 1**  
**Condensed Statements of Net Position**

	2018	2017	2016
Utility plant	\$ 1,051,854,472	\$ 1,057,664,235	\$ 1,069,961,113
Restricted assets	97,236,486	100,110,340	104,508,640
Current assets	116,636,538	123,063,773	158,135,713
Other assets	9,880,232	6,963,367	6,179,768
Deferred outflows of resources	32,956,957	36,631,732	40,415,512
Total Assets and Deferred Outflows of Resources	\$ 1,308,564,685	\$ 1,324,433,447	\$ 1,379,200,746
 Net Position:			
Invested in capital assets	\$ 133,068,974	\$ 97,784,908	\$ 72,267,542
Restricted	8,909,401	8,370,663	7,383,227
Unrestricted	75,581,220	88,767,194	94,266,823
Total Net Position	217,559,595	194,922,765	173,917,592
 Noncurrent liabilities			
Noncurrent liabilities	1,014,324,599	1,055,935,507	1,109,476,957
Current liabilities	76,680,491	73,575,175	95,806,197
Total Liabilities	1,091,005,090	1,129,510,682	1,205,283,154
Total Net Position and Liabilities	\$ 1,308,564,685	\$ 1,324,433,447	\$ 1,379,200,746

## STATEMENTS OF NET POSITION

Year Ended April 30, 2018

IMEA's total utility plant decreased by \$5,809,763 during the year ended April 30, 2018. The Agency made total payments of \$28,746,717 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 \$2,534,957. These capital investments net of depreciation accounted for a majority of the changes in utility plant. Depreciation expense of \$35,268,987 was recorded during the year.

IMEA had a decrease in the cash and short-term investments held in operating reserve accounts of \$482,927 from the previous year. Accounts receivable decreased by \$3,484,052 due primarily to lower revenue from the sale of power during the month of April. These changes along with a decrease in the amount of renewable energy credits held at the end of the year and a decrease in 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, 2018 and 2017

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## **IMEA FINANCIAL ANALYSIS (cont.)**

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### STATEMENTS OF NET POSITION (cont.)

Proceeds of revenue bonds not yet expended are included in restricted assets. The decrease in restricted assets of \$2,873,854 was primarily caused by 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 \$22,636,830.

Principal repayments associated with the Agency's outstanding revenue bonds totaled \$41,095,000. IMEA is scheduled to repay an additional \$42,950,000 on the outstanding revenue bonds on February 1, 2019 which is included in current liabilities. The Agency also had current year draws of \$7,500,000 against a line of credit facility available to IMEA bringing the total outstanding draws on the line of credit to \$10,000,000. The total undrawn portion of this line of credit was \$40,000,000.

#### 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. 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.

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 \$21,005,173.

Principal repayments associated with the Agency's outstanding revenue bonds totaled \$39,310,000. IMEA also paid 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.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended April 30, 2018 and 2017

## IMEA FINANCIAL ANALYSIS (cont.)

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

	2018	2017	2016
Operating revenues	\$ 317,579,869	\$ 320,985,228	\$ 318,081,254
Depreciation expense	35,268,987	34,848,247	34,320,066
Other operating expenses	218,497,306	221,174,284	211,992,597
Total Operating Expenses	<u>253,766,293</u>	<u>256,022,531</u>	<u>246,312,663</u>
Operating Income	<u>63,813,576</u>	<u>64,962,697</u>	<u>71,768,591</u>
Investment income	2,978,084	1,873,942	2,013,301
Interest and amortization expense	(44,205,437)	(45,838,156)	(47,749,764)
Other income/(expense)	50,607	6,690	5,525
Total Non-Operating Expenses	<u>(41,176,746)</u>	<u>(43,957,524)</u>	<u>(45,730,938)</u>
Change in Net Position	22,636,830	21,005,173	26,037,653
Net Position, Beginning of Year	<u>194,922,765</u>	<u>173,917,592</u>	<u>147,879,939</u>
Net Position, End of Year	<u>\$ 217,559,595</u>	<u>\$ 194,922,765</u>	<u>\$ 173,917,592</u>

## STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Year Ended April 30, 2018

Sales to participating members of \$309,866,759 and 3,922,872,791 kilowatt hours ("kWh") were recorded during the fiscal year ended April 30, 2018. This represented a decrease of \$988,643 (.3%) in revenue from sales to participating members and a decrease of 77,355,072 kWh (1.9%) as compared with the previous year. Sales were lower due to cooler than normal summer temperatures in the Midwest during 2017. IMEA also supplied the Rural Electric Convenience Cooperative (RECC) with full requirements power supply service through December 31, 2017 which accounted for additional revenue of \$7,050,667 which is reflected in sales to others. The contract with RECC terminated on December 31, 2017.

IMEA recorded a coincident peak demand of 895 MW which was approximately 5% lower than the 942 MW experienced in the previous year. The total member non-coincident peak demand was 954 MW which included both sales to participating members and to RECC. This non-coincident peak demand was approximately 2.7% lower than the previous year.

The average cost of power sold to the participating members was 7.89 cents per kWh.

See accompanying independent auditors' report.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended April 30, 2018 and 2017

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## **IMEA FINANCIAL ANALYSIS** (cont.)

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### STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION (cont.)

Total operating expenses decreased by \$2,256,238 (.9%) from the previous year due primarily to lower purchased power and transmission expense. Interest and amortization expenses decreased by \$1,632,719 primarily due to payments made to reduce outstanding revenue bonds.

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 supplied 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.

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.

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.

### 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, 2018 and 2017 was approximately 110% for each year after transfers to the rate stabilization account. IMEA transferred \$4,000,000 during the year ended April 30, 2018 and \$3,500,000 during the year ended April 30, 2017 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 approximately 114.5% for the year ended April 30, 2018 and 114% for the year ended April 30, 2017.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended April 30, 2018 and 2017

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## **SIGNIFICANT EVENTS**

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### RENEWABLE ENERGY RESOURCES

IMEA has a contract to purchase 70 MW 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 1.5 MW's of solar energy located within two of IMEA's Member electric systems. These contracts currently provide IMEA with renewable energy resources totaling more than 5% of IMEA's energy requirements. In addition, IMEA has entered into a contract to purchase 50 MW of wind energy for a period of 15 years from a wind farm to be constructed in Illinois. IMEA continues to evaluate additional carbon-free resources and currently projects that these resources will provide over 10% of the Agency's total energy requirements by 2020.

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## **CONTACTING IMEA'S MANAGEMENT**

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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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>UTILITY PLANT</b>		
Utility plant in service	\$ 1,260,398,319	\$ 1,235,748,260
Accumulated depreciation	(252,514,938)	(221,134,788)
Construction work in progress	43,971,091	43,050,763
Total Utility Plant	<u>1,051,854,472</u>	<u>1,057,664,235</u>
<b>RESTRICTED ASSETS</b>		
Cash and investments	<u>97,236,486</u>	<u>100,110,340</u>
<b>CURRENT ASSETS</b>		
Cash	41,827,034	41,678,468
Investments	28,542,176	29,173,669
Accounts receivable	22,098,834	25,510,593
Bond interest subsidy receivable	2,197,498	2,269,791
Renewable energy credits	1,140,482	2,799,015
Prepayments	20,830,514	21,632,237
Total Current Assets	<u>116,636,538</u>	<u>123,063,773</u>
<b>OTHER ASSETS</b>		
Regulatory costs for future recovery	3,164,509	3,514,208
Unrealized loss on investments	5,173,095	1,856,212
Prairie State - other long term asset	1,542,628	1,592,947
Total Other Assets	<u>9,880,232</u>	<u>6,963,367</u>
Total Assets	<u>1,275,607,728</u>	<u>1,287,801,715</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on advance refunding	<u>32,956,957</u>	<u>36,631,732</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 1,308,564,685</u>	<u>\$ 1,324,433,447</u>

	<u>2018</u>	<u>2017</u>
<b>NET POSITION AND LIABILITIES</b>		
<b>NET POSITION</b>		
Net investment in capital assets	\$ 133,068,974	\$ 97,784,908
Restricted	8,909,401	8,370,663
Unrestricted	<u>75,581,220</u>	<u>88,767,194</u>
Total Net Position	<u>217,559,595</u>	<u>194,922,765</u>
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds	922,530,000	965,480,000
Other long-term debt - line of credit	10,000,000	2,500,000
Unamortized premium	61,443,091	68,002,369
Other liabilities	<u>20,351,508</u>	<u>19,953,138</u>
Total Noncurrent Liabilities	<u>1,014,324,599</u>	<u>1,055,935,507</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses		
Accounts Payable		
Purchased power and transmission	9,115,398	10,067,459
Jointly-owned facilities	10,860,808	8,247,210
Other	218,192	88,792
Other current liabilities	<u>389,644</u>	<u>403,348</u>
Total Accounts Payable and Accrued Expenses	<u>20,584,042</u>	<u>18,806,809</u>
Current Liabilities Payable from Restricted Assets		
Current maturities of revenue bonds	42,950,000	41,095,000
Interest accrued	<u>13,146,449</u>	<u>13,673,366</u>
Total Current Liabilities Payable from Restricted Assets	<u>56,096,449</u>	<u>54,768,366</u>
Total Current Liabilities	<u>76,680,491</u>	<u>73,575,175</u>
Total Liabilities	<u>1,091,005,090</u>	<u>1,129,510,682</u>
<b>TOTAL NET POSITION AND LIABILITIES</b>	<u>\$ 1,308,564,685</u>	<u>\$ 1,324,433,447</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, 2018 and 2017

	2018	2017
<b>OPERATING REVENUES</b>		
Sales to participating members	\$ 309,866,759	\$ 310,855,402
Sales to others	7,050,667	9,604,445
Other income	662,443	525,381
Total Operating Revenues	317,579,869	320,985,228
<b>OPERATING EXPENSES</b>		
Purchased power and transmission	120,153,064	125,859,591
Prairie State and Trimble County Units No. 1 and 2		
Fuel	42,117,228	39,798,819
Operations and maintenance	36,614,195	36,229,144
Member Payments		
Fuel reimbursements	1,091,258	1,145,944
Capacity payments	8,930,449	9,027,785
Generation payments	21,824	22,628
Administration and general	7,893,267	7,290,386
Depreciation	35,268,987	34,848,247
Other utility operations	1,676,021	1,799,987
Total Operating Expenses	253,766,293	256,022,531
Operating Income	63,813,576	64,962,697
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	2,978,084	1,873,942
Bond interest subsidy revenue	8,536,717	8,770,878
Interest expense	(55,276,959)	(57,142,671)
Amortization expense	2,534,805	2,533,637
Other income	50,607	6,690
Total Nonoperating Revenues (Expenses)	(41,176,746)	(43,957,524)
<b>CHANGE IN NET POSITION</b>	22,636,830	21,005,173
NET POSITION - Beginning of Year	194,922,765	173,917,592
<b>NET POSITION - END OF YEAR</b>	<b>\$ 217,559,595</b>	<b>\$ 194,922,765</b>

See accompanying notes to financial statements.

**ILLINOIS MUNICIPAL ELECTRIC AGENCY**

STATEMENTS OF CASH FLOWS  
For the Years Ended April 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from power sales	\$ 310,285,654	\$ 309,757,965
Paid to suppliers for purchased power and transmission	(121,105,126)	(125,340,249)
Paid to suppliers and employees for other services	<u>(82,599,894)</u>	<u>(77,006,119)</u>
Net Cash Flows From Operating Activities	<u>106,580,634</u>	<u>107,411,597</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from line of credit draws	7,500,000	-
Payment of line of credit debt	<u>-</u>	<u>(6,000,000)</u>
Net Cash Flows From Noncapital Financing and Related Activities	<u>7,500,000</u>	<u>(6,000,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Debt principal paid	(41,095,000)	(39,310,000)
Interest paid	(55,803,877)	(57,727,371)
Bond interest subsidy received	8,609,010	8,850,255
Acquisition and construction of capital assets	(28,746,717)	(20,801,483)
Asset retirement obligation costs incurred	<u>(62,036)</u>	<u>(261,850)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(117,098,620)</u>	<u>(109,250,449)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	2,978,084	1,873,942
Purchase of long-term investments	(102,563,917)	(164,749,195)
Maturity of long-term investments	<u>102,576,000</u>	<u>165,577,000</u>
Net Cash Flows From Investing Activities	<u>2,990,167</u>	<u>2,701,747</u>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(27,819)</b>	<b>(5,137,105)</b>
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>42,677,027</u>	<u>47,814,132</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<b>\$ 42,649,208</b>	<b>\$ 42,677,027</b>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Change in asset retirement obligation liability	\$ 75,525	\$ (195,373)
Accretion expense	\$ 420,072	\$ 654,959
Change in unrealized loss on investments	\$ 3,316,883	\$ 1,856,212
Amortization expense	\$ 2,534,805	\$ 2,533,637
Credits given on billings	\$ (10,043,531)	\$ (10,196,357)
Net gain on sale of assets	\$ 50,607	\$ 6,690

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 63,813,576	\$ 64,962,697
Noncash items included in operating income		
Depreciation	35,268,987	34,848,247
Other non-cash transactions	371,177	728,882
Changes in assets and liabilities		
Accounts receivable	3,411,759	(505,525)
Prepayments	801,723	6,374,541
Allowance inventory	1,658,534	677,721
Accounts payable	1,254,878	305,034
Other current liabilities	-	20,000
	<u>                    </u>	<u>                    </u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 106,580,634</b>	<b>\$ 107,411,597</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS</b>		
Restricted cash and investments	\$ 97,236,486	\$ 100,110,340
Cash	41,827,034	41,678,468
Investments	<u>28,542,176</u>	<u>29,173,669</u>
Total Cash and Investments	167,605,696	170,962,477
Less: investments	<u>(124,956,488)</u>	<u>(128,285,450)</u>
	<u>                    </u>	<u>                    </u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 42,649,208</b>	<b>\$ 42,677,027</b>

See accompanying notes to financial statements.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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 power providers and through IMEA owned generation. The contracts with power providers, which obligate IMEA to purchase electric energy for concurrent resale to its members, are in effect through September 2035.

As of April 30, 2018, 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, 2018 and 2017

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

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### ***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 renewable energy credits (RECs) held for sale and are valued at current market value. The RECs are obtained 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.

#### ***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.

#### ***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.

#### ***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 other assets on the Statement of Net Position.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

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

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

#### **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:

	Years
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, 2018 and 2017

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

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

##### ***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.

The United States Federal Government was subject to the process of sequestration for the budget year ending September 30, 2018 and 2017 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.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

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

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### ***RATES***

Rates charged to members are approved by the Board of Directors and were increased January 1, 2018. The approved rate includes adjustment clauses which are calculated monthly based on cost to serve member load.

### ***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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 83, *Certain Asset Retirement Obligations*, and Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus*, Statement No. 86, *Certain Debt Extinguishment Issues*, Statement No. 87, *Leases*, and Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. 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, 2018 and 2017

### NOTE 2 – CASH AND INVESTMENTS

IMEA's cash and investments consist of the following:

	Carrying Value as of April 30		Associated Risks
	2018	2017	
The Illinois Funds	\$ 18,313,758	\$ 18,104,268	Credit and interest rate
U.S. agency securities – implicitly guaranteed	124,559,635	128,797,033	Custodial credit, credit, concentration of credit, and interest rate
U.S. Treasuries	905,574	-	Custodial credit and interest rate
Checking and savings	23,826,229	24,060,676	Custodial credit
Petty cash	500	500	Not applicable
<b>Totals</b>	<b>\$ 167,605,696</b>	<b>\$ 170,962,477</b>	

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. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Fair values may have changed significantly after year-end.

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. 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. All deposits were fully collateralized as of April 30, 2018 and 2017.

##### ***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, 2018 and 2017, 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, 2018 and 2017

### 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, 2018 and 2017 IMEA's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's
U.S. agency securities	AA+	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, 2018 and 2017, IMEA's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2018	2017
Federal Home Loan Bank Federal Farm Credit Banks Funding Corporation	U.S. agency securities - Implicitly Guaranteed	41%	34%
Federal National Mortgage Association	U.S. agency securities - Implicitly Guaranteed	43%	45%
	U.S. agency securities - Implicitly Guaranteed	15%	21%

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, 2018 IMEA's investments were as follows:

Investment Type	Maturity (In Years)			
	Fair Value	Less than 1	1-5	Over 5
U.S. agency securities	\$ 124,559,635	\$ 30,986,162	\$ 43,590,498	\$ 49,982,975
U.S. treasuries	905,574	-	905,574	-
	\$ 125,465,209	\$ 30,986,162	\$ 44,496,072	\$ 49,982,975

**ILLINOIS MUNICIPAL ELECTRIC AGENCY**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

**NOTE 2 – CASH AND INVESTMENTS (cont.)**

***INTEREST RATE RISK*** (cont.)

IMEA also has \$18,313,758 invested in The Illinois Funds, which are valued at amortized cost. The average maturity of The Illinois Funds is 108 days.

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

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

IMEA also has \$18,104,268 invested in The Illinois Funds, which are valued at amortized cost. The average maturity of The Illinois Funds is 85 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 April 30, 2018 and 2017 are as follows:

- > Market approach – matrix pricing or market collaborative pricing

Investment Type	April 30, 2018			
	Total	Level 1	Level 2	Level 3
U.S. agency securities	\$ 124,559,635	\$ -	\$ 124,559,635	\$ -
U.S. treasuries	905,574	905,574	-	-
	<u>\$ 125,465,209</u>	<u>\$ 905,574</u>	<u>\$ 124,559,635</u>	<u>\$ -</u>

Investment Type	April 30, 2017			
	Total	Level 1	Level 2	Level 3
U.S. agency securities	\$ 128,797,033	\$ -	\$ 128,797,033	\$ -

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

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## **NOTE 3 – JOINTLY-OWNED FACILITIES**

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### ***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, 2018 and 2017

### 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.
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, 2018 and 2017.

	2018	2017
Included in Current Assets:		
Revenue	\$ 5,257	\$ 2,015
Operation and maintenance	22,843,951	23,341,178
Renewals and replacements	2,284,732	2,320,288
General reserve	1,534,770	5,488,156
Rate stabilization	43,700,000	39,700,000
General cash (not restricted by indenture)	500	500
Total Current Cash and Investments	\$ 70,369,210	\$ 70,852,137
Included in Restricted Investment Accounts:		
Debt service	\$ 22,055,850	\$ 22,044,029
Debt service reserve	75,180,636	78,066,311
Total Restricted Cash and Investments	\$ 97,236,486	\$ 100,110,340

## ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

### NOTE 5 – CHANGES IN UTILITY PLANT

A summary of changes in utility plant for 2018 follows:

	Balance 5/1/17	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 4/30/18
Utility Plant being depreciated				
Electric plant –				
Trimble County Unit No. 1	\$ 123,979,315	\$ 16,477,079	\$ (2,443,799)	\$ 138,012,595
Trimble County Unit No. 2	181,917,113	1,606,951	-	183,524,064
Prairie State Unit No. 1	352,616,451	3,054,443	(974,133)	354,696,761
Prairie State Unit No. 2	324,709,002	1,923,247	(276,609)	326,355,640
Mobile generation	3,117,860	-	-	3,117,860
Prairie State - Common	146,473,795	1,677,724	(5,691)	148,145,828
Prairie State - Jordan Grove	9,753,819	(531,617)	-	9,222,202
Prairie State - Nearfield	9,334,556	2,838,555	-	12,173,111
Prairie State - Other	7,789,441	43,971	-	7,833,412
Prairie State - Mine	40,535,333	1,265,955	-	41,801,288
Prairie State - Coal Reserves	17,369,335	-	-	17,369,335
Land <sup>1</sup>	5,966,369	-	-	5,966,369
Office building	8,188,081	158,419	-	8,346,500
Office furniture and equipment	521,562	3,702	(2,078)	523,186
Supervisory control and data acquisition equipment	2,389,549	1,148	(72,507)	2,318,190
Winnetka 138 interconnect	500,000	-	-	500,000
Other equipment	586,679	19,317	(114,018)	491,978
Total Utility Plant in Service	1,235,748,260	28,538,894	(3,888,835)	1,260,398,319
Construction work in progress <sup>1</sup>	43,050,763	23,272,186	(22,351,858)	43,971,091
Total Utility Plant	<u>\$1,278,799,023</u>	<u>\$ 51,811,080</u>	<u>\$ (26,240,693)</u>	<u>\$1,304,369,410</u>

<sup>1</sup> Utility plant that is not being depreciated.

**ILLINOIS MUNICIPAL ELECTRIC AGENCY**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

**NOTE 5 – CHANGES IN UTILITY PLANT (cont.)**

	Balance 5/1/17	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 4/30/18
Less: Accumulated depreciation				
Electric plant –				
Trimble County Unit No. 1	\$ (66,728,305)	\$ (4,277,001)	\$ 2,443,799	\$ (68,561,507)
Trimble County Unit No. 2	(29,172,548)	(4,936,856)	-	(34,109,404)
Prairie State Unit No. 1	(42,144,000)	(8,846,162)	974,133	(50,016,029)
Prairie State Unit No. 2	(35,597,710)	(8,143,517)	276,609	(43,464,618)
Mobile generation	(1,549,476)	(103,929)	-	(1,653,405)
Prairie State - Common	(17,478,658)	(3,684,636)	5,691	(21,157,603)
Prairie State - Jordan Grove	(4,852,222)	(957,661)	-	(5,809,883)
Prairie State - Nearfield	(800,220)	(257,019)	-	(1,057,239)
Prairie State - Other	(1,881,367)	(390,754)	-	(2,272,121)
Prairie State - Mine	(12,657,952)	(2,744,955)	-	(15,402,907)
Prairie State - Coal Reserves	(2,214,269)	(541,468)	-	(2,755,737)
Office building	(2,469,335)	(270,239)	-	(2,739,574)
Office furniture and equipment	(498,541)	(10,199)	2,078	(506,662)
Supervisory control and data acquisition equipment	(2,304,450)	(36,659)	72,507	(2,268,602)
Winnetka 138 interconnect	(344,445)	(16,667)	-	(361,112)
Other equipment	(441,290)	(51,265)	114,020	(378,535)
Total Accumulated Depreciation	<u>(221,134,788)</u>	<u>(35,268,987)</u>	<u>3,888,837</u>	<u>(252,514,938)</u>
Net Utility Plant	<u>\$1,057,664,235</u>			<u>\$1,051,854,472</u>

## ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

### NOTE 5 – CHANGES IN UTILITY PLANT (cont.)

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 <sup>1</sup>	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 <sup>1</sup>	25,996,564	20,791,753	(3,737,554)	43,050,763
Total Utility Plant	<u>\$ 1,256,784,926</u>	<u>\$ 26,296,733</u>	<u>\$ (4,282,636)</u>	<u>\$ 1,278,799,023</u>

<sup>1</sup> Utility plant that is not being depreciated.

**ILLINOIS MUNICIPAL ELECTRIC AGENCY**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

**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	<u>(186,823,813)</u>	<u>(34,848,247)</u>	<u>537,272</u>	<u>(221,134,788)</u>
Net Utility Plant	<u>\$ 1,069,961,113</u>			<u>\$ 1,057,664,235</u>

## ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

### NOTE 6 – LONG TERM OBLIGATIONS

IMEA has issued the following revenue bonds:

Date	Purpose	Final Maturity	Interest Rates	Original Issue	Outstanding Amount 4/30/18
Nov. 5, 2007	Refinance 1998 bonds	Feb. 1, 2021	5.00 – 5.20%	\$ 51,360,000	14,735,000
Jul. 15, 2009	Debt service and capital improvements *	Feb. 1, 2035	5.33 – 6.13%	294,755,000	266,110,000
Nov. 30, 2010	Debt service and capital improvements *	Feb. 1, 2035	2.47 – 7.29%	140,290,000	114,265,000
April 1, 2015	Refunding 2006 and 2007A bonds	Feb. 1, 2035	4.00 – 5.00%	594,685,000	570,370,000

\* 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 2018 and 2017, 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 6.6% and a 6.9% reduction in payments for the federal budget year ended September 30, 2018 and 2017, 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:

Year	Principal	Interest	Total
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	45,675,000	43,938,142	89,613,142
2024 – 2028	260,500,000	178,597,817	439,097,817
2029 – 2033	327,865,000	96,080,585	423,945,585
2034 - 2035	152,990,000	11,967,624	164,957,624
Totals	<u>\$ 965,480,000</u>	<u>\$ 530,445,489</u>	<u>\$ 1,495,925,489</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, 2018 and 2017

### 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 \$10.0 million and \$2.5 million outstanding under the LOC Agreement as of April 30, 2018 and 2017, respectively.

Long-term obligation activity for the year ended April 30, 2018 is as follows:

	Balance 5/1/17	Additions	Reductions	Balance 4/30/18	Due Within One Year
Revenue bonds	\$ 1,006,575,000	\$ -	\$ 41,095,000	\$ 965,480,000	\$ 42,950,000
Line of credit agreement	2,500,000	7,500,000	-	10,000,000	-
Unamortized premium	68,002,369	-	6,559,278	61,443,091	-
Other liabilities	19,953,138	537,372	139,002	20,351,508	-
<b>Totals</b>	<b>\$ 1,097,030,507</b>	<b>\$ 8,037,372</b>	<b>\$ 47,793,280</b>	<b>\$ 1,057,274,599</b>	<b>\$ 42,950,000</b>

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	-
<b>Totals</b>	<b>\$ 1,148,786,957</b>	<b>\$ 239,962</b>	<b>\$ 51,996,412</b>	<b>\$ 1,097,030,507</b>	<b>\$ 41,095,000</b>

**ILLINOIS MUNICIPAL ELECTRIC AGENCY**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended April 30, 2018 and 2017

**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 5/1/17</u>	<u>Liabilities Incurred</u>	<u>Accretion</u>	<u>Costs Incurred</u>	<u>Balance 4/30/18</u>
\$ 19,404,469	\$ 75,525	\$ 420,072	\$ (62,035)	\$ 19,838,031

  

<u>Balance 5/1/16</u>	<u>Liabilities Incurred</u>	<u>Accretion</u>	<u>Costs Incurred</u>	<u>Balance 4/30/17</u>
\$ 19,206,733	\$ (195,372)	\$ 654,959	\$ (261,851)	\$ 19,404,469

**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, 2018 and 2017

### NOTE 8 – NET POSITION (cont.)

The following calculation supports the net investment in capital assets:

	2018	2017
Utility plant in service	\$1,260,398,319	\$ 1,235,748,260
Accumulated depreciation	(252,514,938)	(221,134,788)
Construction work in progress	43,971,091	43,050,763
Sub-totals	1,051,854,472	1,057,664,235
Less: Capital related debt		
Current portion of capital related long-term debt	42,950,000	41,095,000
Long-term portion of capital related long-term debt	922,530,000	965,480,000
Unamortized loss on advance refunding	(32,956,957)	(36,631,732)
Unamortized premium	61,443,091	68,002,369
Sub-totals	993,966,134	1,037,945,637
Add: Unspent debt proceeds		
Debt service reserve from borrowing	75,180,636	78,066,310
Total Net Investment in Capital Assets	\$ 133,068,974	\$ 97,784,908

The following calculation supports the amount of restricted net position:

	2018	2017
Restricted investments	\$ 97,236,486	\$ 100,110,339
Less: Restricted assets not funded by revenues		
Debt service reserve account	(75,180,636)	(78,066,310)
Current liabilities payable from restricted assets	(13,146,449)	(13,673,366)
Sub-totals	(88,327,085)	(91,739,676)
Total Restricted Net Position as Calculated	\$ 8,909,401	\$ 8,370,663

### NOTE 9 – REGULATORY COSTS FOR FUTURE RECOVERY

Regulatory costs for future recovery includes unamortized debt issuance costs, which amounted to \$3,164,509 and \$3,514,208 for the years ended April 30, 2018 and 2017, respectively. IMEA has chosen to use the application of GASB 62 to recover these costs in future periods.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2018 and 2017

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### **NOTE 10 – EMPLOYEE RETIREMENT PLAN**

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IMEA's employees are covered by the Illinois Municipal Electric Agency Pension Plan, a defined contribution 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 pension expense was equal to total contributions to the plan made by IMEA, net of applied forfeitures. For the years ended April 30, 2018 and 2017 total contributions were \$890,000 and \$840,000, respectively.

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### **NOTE 11 – CONTRACTS AND COMMITMENTS**

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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.

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### **NOTE 12 – SIGNIFICANT CUSTOMERS**

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IMEA has two significant customers who were responsible for 49% and 49% of operating revenue in 2018 and 2017, respectively.

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### **NOTE 13 – RISK MANAGEMENT**

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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.