

MANAGEMENT'S DISCUSSION AND ANALYSIS

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

April 30, 2011 and 2010

UNAUDITED

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, 2011 and 2010. 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. The Agency uses the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

The Statements of Revenues, Expenses and Changes in Net Assets present information showing how IMEA's net assets changed during the most recent year due to IMEA's business activity. The Balance Sheets report year end assets, liabilities and net assets 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 assets 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 Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Assets. A summary of IMEA's Balance Sheets is presented in Table 1 and the Statements of Revenues, Expenses and Changes in Net Assets are summarized in Table 2.

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IMEA FINANCIAL ANALYSIS (cont.)

**Table 1
Condensed Balance Sheets**

	2011	2010	2009
Utility plant	\$1,010,776,621	\$735,751,407	\$497,275,903
Restricted assets	290,029,063	408,515,640	326,939,181
Current assets	56,948,779	51,929,149	52,051,694
Other Assets	27,463,157	19,303,102	16,717,862
Total Assets	\$1,385,217,620	\$1,215,499,298	\$892,984,640
Net Assets:			
Invested in capital assets, net of related debt	\$67,473,669	\$41,765,895	\$37,177,929
Unrestricted	9,313,877	22,053,988	24,790,482
Total Net Assets	76,787,546	63,819,883	61,968,411
Non-current liabilities	1,248,156,946	1,115,358,654	801,833,931
Current liabilities	60,273,128	36,320,761	29,182,298
Total Liabilities	1,308,430,074	1,151,679,415	831,016,229
Total Net Assets and Liabilities	\$1,385,217,620	\$1,215,499,298	\$892,984,640

BALANCE SHEETS

During the year ended April 30, 2011, utility plant increased by \$275,025,214. IMEA's capital investments made during the year included total payments of \$220,167,866 toward the construction costs associated with the Prairie State project, the Trimble County Unit 2 project, general improvements to Trimble County Unit 1 and other smaller capital acquisitions and improvements. Total current liabilities associated with these capital improvements were \$13,608,011 which is reflected in current liabilities. These capital investments plus the interest charged to construction projects and net of depreciation accounted for a majority of the changes in utility plant. Depreciation expense of \$4,454,531 was recorded during the year.

During the year ended April 30, 2010, utility plant increased by \$238,475,504. IMEA's capital investments made during the year included total payments of \$205,447,674 toward the construction costs associated with the Prairie State project, the Trimble County Unit 2 project, general improvements to Trimble County Unit 1 and other smaller capital acquisitions and improvements. Total current liabilities associated with these capital improvements were \$892,128 which is reflected in current liabilities. These capital investments plus the interest charged to construction projects and net of depreciation accounted for a majority of the changes in utility plant. Depreciation expense of \$3,291,971 was recorded during the year.

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IMEA FINANCIAL ANALYSIS (cont.)

During the fiscal year ended April 30, 2011, IMEA increased the cash and short-term investments held in operating reserve accounts by \$2,871,456 from the previous year due to the members' continued commitment to increase cash reserves held by IMEA and the return of a portion of the cash collateral provided during the previous year for certain IMEA operating arrangements. Accounts receivable increased by \$1,563,110 due primarily to the accrual of the amount due from the US Treasury for the payment of interest on the 2010A Build America Bonds issued during the year. Other assets increased by \$8,160,055 due to the deferral of certain purchased power costs which will be collected through rates over future years. Net assets increased due to current year operations that resulted in net income of \$12,967,663. The agency also paid \$8,710,000 in principal repayments associated with outstanding revenue bonds.

During the fiscal year ended April 30, 2010, IMEA experienced a decrease in the cash and short-term investments held in operating reserve accounts of \$8,447,378 from the previous year. This was caused by the need to provide cash collateral for certain IMEA operating arrangements and the continued investment in capital additions to Trimble County Unit 1. The decrease in cash and short-term investments was mainly offset by the collateral funding included in current assets and an increase in accounts receivable. Accounts receivable increased due to the accrual of the amount due from the US Treasury for the payment of interest on the 2009C Build America Bonds issued during the year. Net assets increased due to current year operations that resulted in net income of \$1,851,472. The agency also paid \$3,665,000 in principal repayments associated with outstanding revenue bonds.

IMEA issued the Series 2010A Power Supply System Revenue Bonds ("Series 2010 Bonds") in the total par amount of \$140,290,000 on November 18, 2010. IMEA issued the Series 2009A, 2009B and 2009C Power Supply System Revenue Bonds ("Series 2009 Bonds") in the total par amount of \$321,790,000 on July 15, 2009. The final maturity of the Series 2010 Bonds and Series 2009 Bonds is February 1, 2035. The Series 2010 Bonds and Series 2009 Bonds were issued to finance a portion of the project costs of constructing the Prairie State project. The par amount of the Series 2010 Bonds, Series 2009 Bonds, Series 2007 Bonds, Series 2007 Refunding Bonds and the Series 2006 Bonds are reflected in non-current liabilities. Proceeds of revenue bonds not yet expended are included in restricted assets. Proceeds of revenue bonds expended during the year represented a majority of the payments toward capital investments discussed above.

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IMEA FINANCIAL ANALYSIS (cont.)

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

	2011	2010	2009
Operating revenues	\$176,834,693	\$159,407,464	\$150,153,689
Depreciation expense	4,454,531	3,291,971	3,433,667
Other operating expenses	152,565,582	150,683,441	140,090,582
Total Operating Expenses	157,020,113	153,975,412	143,524,249
Operating Income	19,814,580	5,432,052	6,629,440
Investment income	4,662,809	6,709,710	11,686,569
Interest and amortization expense	(10,334,613)	(10,199,312)	(14,759,623)
Other income (expense)	3,911	(90,978)	(170,797)
Total Non-Operating Expenses	(5,667,893)	(3,580,580)	(3,243,851)
Change in Net Assets before Special Item	14,146,687	1,851,472	3,385,589
Special Item	(1,179,024)	-	-
Change in Net Assets	12,967,663	1,851,472	3,385,589
Net Assets, Beginning of Year	63,819,883	61,968,411	58,582,822
Net Assets, End of Year	\$76,787,546	\$63,819,883	\$61,968,411

See accompanying independent auditors' report.

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IMEA FINANCIAL ANALYSIS (cont.)

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

Sales to participating members of \$166,474,951 and 2,591,542,077 kilowatt hours ("kWh") were recorded during the fiscal year ended April 30, 2011. This represented an increase of \$17,475,628 (12%) in revenue from sales to participating members and 176,300,893 kWh (7%) as compared with the previous year. The increase in revenue was caused by the increased kWh sales and an increase in the average cost of power sold to participating members. The increase in kWh sales was mostly attributable to more normal weather conditions experienced in the summer of 2010 as compared to the previous year. IMEA also began service the City of Red Bud on January 1, 2011 which added \$1,017,674 in revenue and 14,428,869 kWh to IMEA sales to participating members. On January 1, 2009, IMEA began supplying the Rural Electric Convenience Cooperative (RECC) with full requirements power supply service under a five year contract. The sales to RECC under this agreement accounted for additional revenue of \$9,079,342 which is reflected in sales to others.

Sales to participating members of \$148,999,323 and 2,415,241,184 kilowatt hours ("kWh") were recorded during the fiscal year ended April 30, 2010. This represented an increase of \$2,708,365 (2%) in revenue from sales to participating members and a decrease of 110,265,003 kWh (4%) as compared with the previous year. The increase in revenue was caused by an increase in the average cost of power sold to participating members. The decrease in kWh sales was mostly attributable to extremely mild weather conditions experienced in July and August 2009 and a continued soft economic environment. Sales to RECC under their five year agreement accounted for additional revenue of \$8,876,865 which is reflected in sales to others.

During the fiscal year ending April 30, 2011, IMEA recorded a coincident peak demand of 609,230 kW and a non-coincident peak demand of 649,186 kW which included both sales to participating members and to RECC. The coincident peak demand was approximately 4% higher and the non-coincident peak demand was approximately 7% higher than the previous year. During the fiscal year ending April 30, 2010, IMEA recorded a coincident peak demand of 587,951 kW and a non-coincident peak demand of 608,019 kW. This coincident peak demand was approximately 8% higher and the non-coincident peak demand was approximately 1% lower than the previous year.

The average cost of power sold to the participating members during the year ending April 30, 2011 was 6.42 cents per kWh which was approximately 4% higher than the previous year. The average cost of power sold to the participating members during the year ending April 30, 2010 was 6.17 cents per kWh which was approximately 6.5% higher than the previous year. These increases were the result of higher purchased power and plant operating costs paid by IMEA to serve the participating members.

For the year ended April 30, 2011, total operating expenses increased by \$3,044,701 (2%) from the previous year due primarily to an increase in fuel and O&M expenses necessary to operate both Trimble County Unit 1 and 2. During this past year, interest income decreased by \$2,046,901 primarily as a result of lower acquisition fund balances available for investment. Interest expense increased as a result of the issuance of the Series 2009 Bonds and Series 2010 Bonds.

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IMEA FINANCIAL ANALYSIS (cont.)

For the year ended April 30, 2010, total operating expenses increased by \$10,451,163 (7%) from the previous year due primarily to an increase in purchased power expenses. During this year, interest income decreased by \$4,976,859 primarily as a result of lower interest rates available for investment of funds. Interest expense decreased as a result of more interest being charged to construction projects.

DEBT SERVICE COVERAGE

IMEA's bond resolution requires the Agency to maintain a debt service coverage ratio of 110%. Debt service coverage generated from operations during the years ended April 30, 2011 and 2010 was approximately 113% and 148% respectively. IMEA transferred \$2,500,000 into the rate stabilization account at April 30, 2011 which reduced the debt service coverage during this year.

SIGNIFICANT EVENTS

POWER SALES CONTRACTS WITH NEW PARTICIPATING MEMBERS

IMEA began providing service to the Village of Riverton under the long-term contract on April 1, 2009 which added approximately 7 MW to IMEA's peak demand. In addition, IMEA began providing service to the City of Red Bud under a long-term contract on January 1, 2011 which added approximately 12 MW to IMEA's peak demand. IMEA will begin providing service to the City of Naperville on June 1, 2011 which is expected to add approximately 370 MW to IMEA's peak demand.

IMEA also began supplying full requirements service to RECC on January 1, 2009 under the terms of a five year agreement. Sales to RECC added approximately 27 MW to IMEA's peak demand.

POWER SUPPLY SYSTEM REVENUE BONDS, SERIES 2009

On November 18, 2010, IMEA issued the Power Supply System Revenue Bonds, Series 2010A, as Build America Bonds in the total amount of \$140,290,000. The Series 2010 Bonds were issued to (1) fund project costs including a portion of the costs associated with the Prairie State Project; (2) fund interest during construction; (3) pay the cost of issuance of the Series 2010 Bonds; and (4) fund a deposit to the Debt Service Reserve Fund. The Series 2010 Bonds have interest rates that range from 2.473% to 7.288% and a final maturity date of February 1, 2035.

On July 15, 2009, IMEA issued the Power Supply System Revenue Bonds, Series 2009A, 2009B (taxable series) and 2009C (Build America Bond series) in the total amount of \$321,790,000. The Series 2009 Bonds were issued to (1) fund project costs including a portion of the costs associated with the Prairie State Project; (2) fund interest during construction; (3) pay the cost of issuance of the Series 2009 Bonds; and (4) fund a deposit to the Debt Service Reserve Fund. The Series 2009 Bonds have interest rates that range from 4.0% to 6.128% and a final maturity date of February 1, 2035.

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SIGNIFICANT EVENTS (cont.)

TRIMBLE COUNTY UNIT 2

Trimble County Unit 2 is a new pulverized-coal super-critical unit of 750 MW nominal net rating located adjacent to the existing Trimble County Unit 1 which was placed into commercial operation on January 22, 2011. IMEA's 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 is developing the Prairie State Project. The project documents provide for the purchase of an undivided ownership interest in the Prairie State Project by IMEA and the other project owners. IMEA owns a 15.17% (approximately 240 MW) undivided interest in the project. The Prairie State Project is planned to be a nominal 1,600 MW plant, utilizing two supercritical steam units of approximately 800 MW in size. The Prairie State Project includes contiguous coal reserves and the development of a mine portal to supply coal to the power plant. Construction of the power plant was approximately 76.9% complete at April 30, 2011. IMEA anticipates that one of the Prairie State units will be available for commercial operation in the fourth quarter of 2011 and the second unit will be available for commercial operation in the third quarter of 2012.

RENEWABLE ENERGY RESOURCES

In recognition of the changing legislative and regulatory environment, the IMEA Board of Directors has adopted a policy that directs the agency to acquire approximately 5% of its energy requirements from renewable resources. To implement this policy, IMEA entered into a 20 year contract to purchase 70MW of wind energy from the Lee-Dekalb wind project owned by FPL Energy Illinois Wind, LLC. The contract was effective on January 1, 2010.

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.