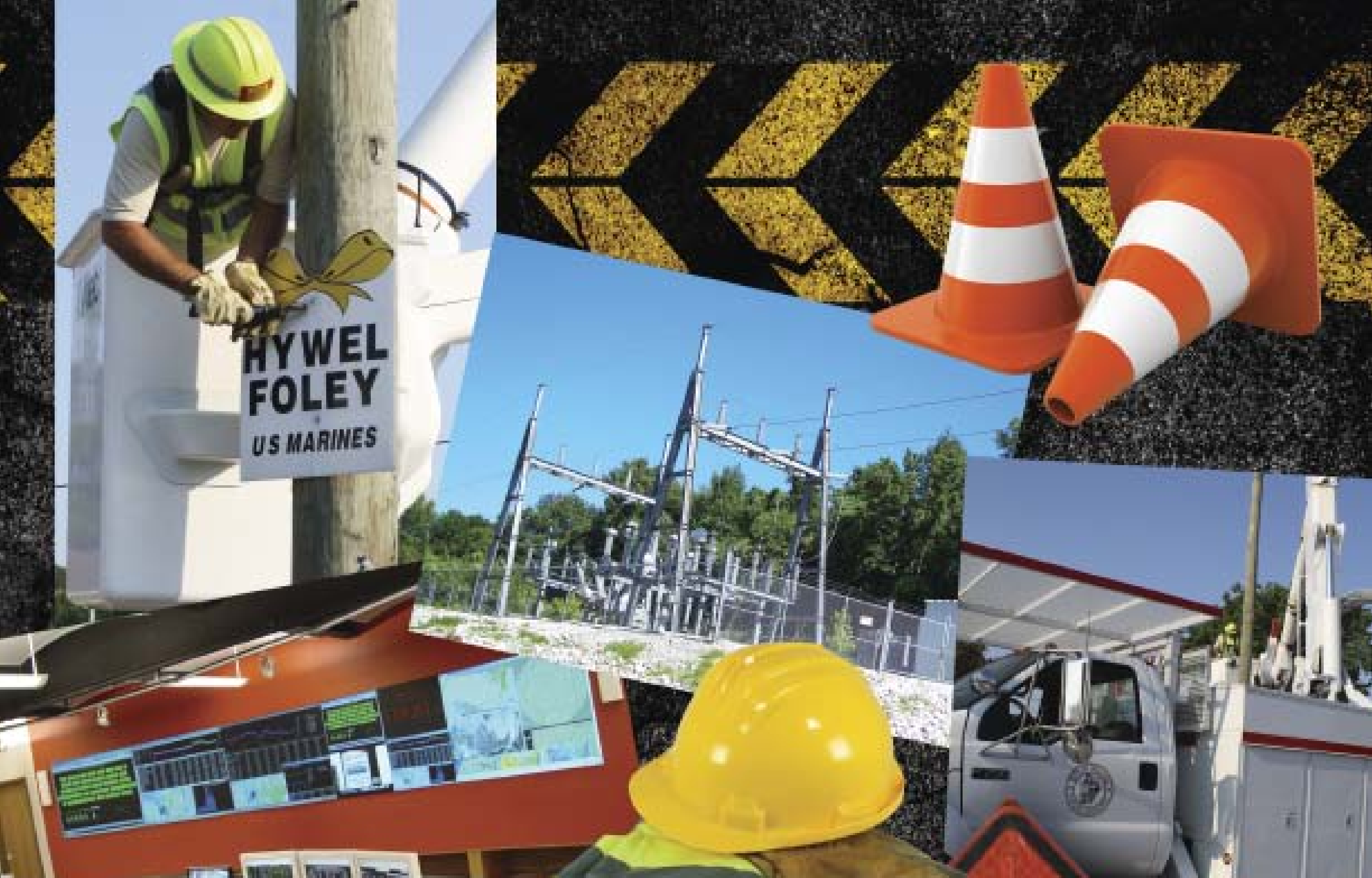



# Illinois Municipal Electric Agency

## ANNUAL REPORT 2013

# A Message from the President & CEO and from the Chairman of the Board

Utility Work Ahead.

For some of IMEA's Member municipalities, there has been utility work ahead for more than a century – ever since the town put its old lamplighter out of work and then rehired him (and two or three of his neighbors) to string wire and mind the city's electric generating unit.

Of course, during the period from the turn of the 20th century to the turn of the 21st, much has changed for municipal electric utilities in Illinois. Only one – Springfield – still is able to economically generate its power supply 24-hours-a-day, seven days a week. The others have power brought to the city gate and then distribute it to their city's customers.

IMEA is poised to begin its 30th year of service to the Illinois municipalities that formed this joint action agency in 1984. Our job is to get power to the city gates of our 32 municipal members. (We also provide power to one electric cooperative.) To accomplish our task, we plan, finance, own and operate facilities for generation and we purchase wholesale power on their behalf.

Obviously, to the residents in IMEA communities across Illinois, the work of our Member municipal electric departments is more visible than the Agency's. That is as it should be. But, though the joint action agency is seemingly behind the scenes (and very rarely behind a big orange sign), IMEA plays its part in providing reliable electric service to the residential, commercial and industrial accounts our Members serve.

Fiscal year 2012-13 was indeed a good one for IMEA.

Two nominal 800 MW super critical generating units at the Prairie State Generating Company began commercial operation. IMEA owns a 15.17 percent share of the output.

IMEA had its best year ever in terms of revenue earned and number of kilowatt hours sold. In fact, this past fiscal year, IMEA became one of the top ten joint action agencies in the United States as measured in terms of annual revenue.

In addition, we provided our Members with educational opportunities, assistance with their economic development efforts, an electric efficiency program and legislative advocacy at the state and federal levels.

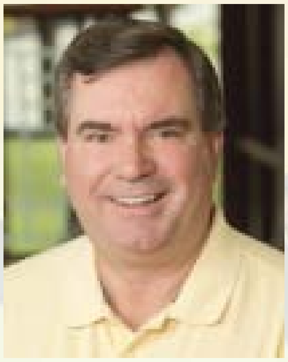
This annual report will detail those – and other – accomplishments. IMEA achieved much this year and indeed in each of its first 29 years of existence. But there always has been, always is, and always will be Utility Work Ahead for IMEA and its Member municipal electric systems. In a time when many private-sector firms – even some in the utility services industry – are keenly focused on the most profitable and well-timed exit strategy, IMEA and its Members still believe in providing for the long-term interests of our communities. That's because we are formed to be of service to the public that created us.

For us, there is always Utility Work Ahead. Why? Because our IMEA Member communities demand it and deserve it. IMEA and all its Member utility service systems are honored and proud to provide good service to our customers. We are humbled by the trust they've placed in us. And we welcome the opportunity to do more good work.

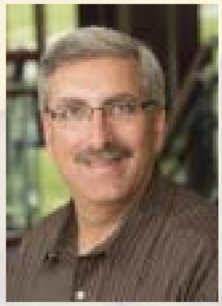

**Kevin M. Gaden** **(right)**
President & CEO

**Rick Abell** **(left)**
Chairman of the Board

## Executive Board



**Chairman**
**Rick Abell**
*Metropolis*

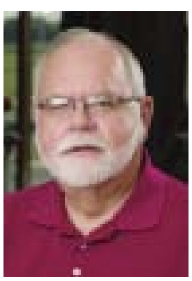


**Vice Chairman**
**Tim Birk**
*Waterloo*

**Secretary/**
**Treasurer**
**Jason Bird**
*Princeton*

**Immediate**
**Past Chairman**
**Del McCord**
*Chatham*

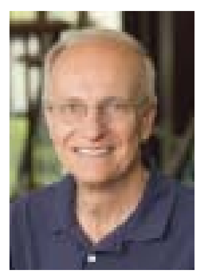
## Members at Large



**Mayor Larry**
**Taylor**
*Altamont*

**Dale Detmer**
*Breese*

**Cory**
**Sheehy**
*Marshall*



**Mark**
**Curran**
*Naperville*

**Brian**
**Keys**
*Winnetka*

# Who We Are

The Illinois Municipal Electric Agency (IMEA) is a not-for-profit unit of local government comprised of 32 municipal electric systems and one electric cooperative from across Illinois. Each of those communities owns and operates its own electric distribution system. Some operate local power generation plants.

Since its creation 29 years ago, the focus of the IMEA has been on the reliable delivery of bulk power and energy to its Members at low and stable prices. IMEA combines the power needs of all of its Members and secures the electricity necessary to satisfy those needs. The Agency sells its municipal Members and one co-op all their wholesale power needs under long-term power supply contracts.

To accomplish this goal, IMEA has assembled a portfolio of power supply ownership and contracts. These include the ownership of a portion of large power plants in Kentucky and Illinois, a long-term power supply contract with a major power marketing company, additional smaller power contracts with other power suppliers, and purchases from the market when that is an economical option. IMEA also uses the power plants owned and operated by our Members to meet the membership's needs from time to time.

IMEA backs its commitment to power supply excellence with a 24-hour-a-day, seven-day-a-week Operations Center staffed by highly skilled power supply professionals. In addition, IMEA provides engineering, communications, economic development, energy efficiency, legislative and regulatory oversight services for its Members.

The Agency is governed by a board of directors appointed by its Members. A professional staff administers day-to-day operations.

## IMEA Members

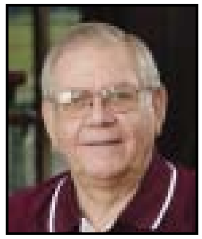
| | | |
|---|---|---|
| Altamont | Flora | Princeton |
| Bethany | Freeburg | Rantoul |
| Breese | Greenup | Red Bud |
| Bushnell | Highland | Riverton |
| Cairo | Ladd | Rock Falls |
| Carlyle | Marshall | Roodhouse |
| Carmi | Mascoutah | St. Charles |
| Casey | Metropolis | Sullivan |
| Chatham | Naperville | Waterloo |
| Fairfield | Oglesby | Winnetka |
| Farmer City | Peru | |

★ Rural Electric Convenience Cooperative (RECC) – Non-voting power purchaser

# Board of Directors


**Mike Collins**
*Bethany*

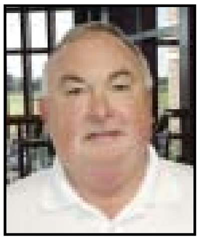

**Justin Griffith**
*Bushnell*


**Karl Klein**
*Cairo*


**John Hodapp**
*Carlyle*


**Bob Rothermel**
*Carmi*

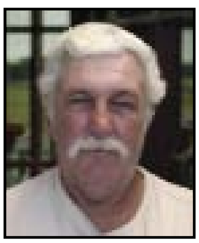

**Shelby Biggs**
*Casey*


**Mayor Charles Griswold, Jr.**
*Fairfield*


**Rick Hardesty**
*Farmer City*


**Bob Coble**
*Flora*

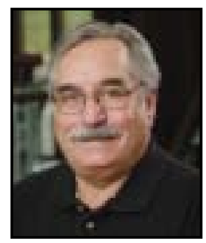

**John Tolan**
*Freeburg*


**Dan Scales**
*Greenup*


**Dan Cook**
*Highland*


**Patrick Barry**
*Ladd*


**Cody Hawkins**
*Mascoutah*

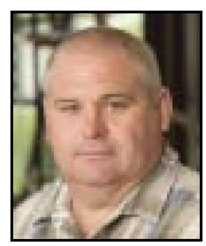

**Dominic Rivara**
*Oglesby*


**Jim Potthoff**
*Peru*


**Greg Hazel**
*Rantoul*


**David "Louie" Diewald**
*Red Bud*


**Russ Patrick**
*Riverton*


**Dick Simon**
*Rock Falls*


**Everett Schofield**
*Roodhouse*


**Tom Bruhl**
*St. Charles*


**Doug Carnes**
*Sullivan*


**David Stuva**
*RECC*

# Ten Year Comparative Summary of Operations

| FOR THE YEARS ENDED APRIL 30, | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Electric Sales to Participating Members | $293,252,375 | $269,710,862 | $166,474,951 | $148,999,323 |
| Electric Sales to Non-Participating Members | 0 | 0 | 0 | 0 |
| Electric Sales to Others | 9,191,496 | 9,081,678 | 9,079,342 | 8,876,865 |
| Member Assessments | 0 | 0 | 8,333 | 10,000 |
| Other | 2,038,994 | 1,867,134 | 1,272,067 | 1,521,276 |
| Total Operating Revenues | 304,482,865 | 280,659,674 | 176,834,693 | 159,407,464 |
| Operating Expenses: | | | | |
| Purchased Power | 121,189,265 | 167,998,413 | 99,499,201 | 105,434,390 |
| Transmission | 19,839,895 | 23,747,840 | 14,924,800 | 14,049,221 |
| Prairie State and Trimble County Unit #1 and 2: | | | | |
| Fuel | 35,127,223 | 23,540,732 | 14,152,031 | 7,838,048 |
| Operations and Maintenance | 20,463,752 | 8,331,479 | 5,786,808 | 5,859,538 |
| Member Payments: | | | | |
| Fuel Reimbursements | 1,423,755 | 2,083,846 | 1,236,692 | 995,589 |
| Capacity Payments | 9,204,193 | 9,334,291 | 9,309,573 | 9,281,664 |
| Generation Payments | 3,357 | 17,866 | 5,799 | 2,997 |
| Administrative and General | 7,084,137 | 7,320,757 | 6,781,113 | 6,114,056 |
| Depreciation | 27,081,063 | 7,796,362 | 4,454,531 | 3,291,971 |
| Other Utility Operations | 1,169,848 | 970,795 | 869,565 | 1,107,938 |
| Total Operating Expenses | 242,586,488 | 251,142,381 | 157,020,113 | 153,975,412 |
| Net Operating Income | 61,896,377 | 29,517,293 | 19,814,580 | 5,432,052 |
| Other Expenses - Net | (46,421,103 ) | (11,471,707 ) | (5,667,893 ) | (3,580,580 ) |
| Net Income Before Special Item | $15,475,274 | $18,045,586 | $14,146,687 | $1,851,472 |
| Special Item | $0 | $0 | ($1,179,024 ) | $0 |
| Change in Net Position | $15,475,274 | $18,045,586 | $12,967,663 | $1,851,472 |
| Peak Demand (Non-Coincident kW) | 1,084,464 | 1,063,494 | 649,186 | 608,019 |
| Kilowatt-Hour Sales to Participating Members(kWh) | 4,135,520,775 | 3,910,906,019 | 2,591,542,077 | 2,415,241,184 |
| Kilowatt-Hour Sales to Non-Participating Members(kWh) | 0 | 0 | 0 | 0 |
| Kilowatt-Hour Sales to Others(kWh) | 115,139,111 | 112,278,126 | 117,881,804 | 121,424,791 |
| Cost per kWh to Participating Members (Cents/kWh) | 7.09 | 6.90 | 6.42 | 6.17 |
| Cost per kWh to Participating Members after Capacity Payments (Cents/kWh) | 6.87 | 6.66 | 6.06 | 5.78 |
| Debt Service Coverage after Rate Stabilization Transfer | 113% | 119% | 113% | 148% |
| Principal Paid on Revenue Bonds | $23,675,000 | $8,795,000 | $8,710,000 | $3,665,000 |
| Revenue Bonds Outstanding | $1,209,675,000 | $1,233,350,000 | $1,242,145,000 | $1,110,565,000 |
| Net Position | $110,308,406 | $94,833,132 | $76,787,546 | $63,819,883 |

| 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| $146,290,958 | $140,222,832 | $101,362,681 | $107,605,194 | $91,690,145 | $87,225,675 |
| 0 | 0 | 0 | 863,087 | 9,149,858 | 10,632,837 |
| 2,630,952 | 3,284 | 0 | 0 | 207,490 | 520,398 |
| 10,000 | 10,000 | 28,500 | 40,667 | 37,333 | 38,000 |
| 1,221,779 | 1,155,131 | 369,710 | 228,309 | 104,278 | 4,366 |
| 150,153,689 | 141,391,247 | 101,760,891 | 108,737,257 | 101,189,104 | 98,421,276 |
| 95,326,413 | 92,125,794 | 54,127,374 | 56,786,957 | 54,865,563 | 54,211,119 |
| 11,590,389 | 10,277,107 | 6,657,441 | 6,464,926 | 8,810,941 | 8,745,400 |
| 11,099,921 | 7,498,448 | 7,892,265 | 7,038,616 | 6,600,569 | 5,714,501 |
| 4,532,103 | 4,226,640 | 3,511,622 | 3,473,196 | 2,967,968 | 2,757,950 |
| 1,866,252 | 1,507,892 | 2,358,657 | 6,227,758 | 753,310 | 567,572 |
| 9,263,030 | 9,527,462 | 10,159,631 | 10,450,580 | 10,856,959 | 10,581,245 |
| 4,719 | 15,297 | 32,547 | 121,835 | 11,225 | 37,307 |
| 5,774,665 | 5,112,890 | 4,474,511 | 3,872,102 | 3,337,937 | 3,185,806 |
| 3,433,667 | 3,245,737 | 3,129,115 | 3,242,803 | 3,133,520 | 3,063,809 |
| 633,090 | 613,600 | 598,955 | 855,049 | 540,232 | 387,280 |
| 143,524,249 | 134,150,867 | 92,942,118 | 98,533,822 | 91,878,224 | 89,251,989 |
| 6,629,440 | 7,240,380 | 8,818,773 | 10,203,435 | 9,310,880 | 9,169,287 |
| (3,243,851 ) | (2,546,837 ) | (1,912,322 ) | (3,191,010 ) | (3,913,347 ) | (4,466,622 ) |
| $3,385,589 | $4,693,543 | $6,906,451 | $7,012,425 | $5,397,533 | $4,702,665 |
| $0 | $0 | $0 | $0 | $0 | $0 |
| $3,385,589 | $4,693,543 | $6,906,451 | $7,012,425 | $5,397,533 | $4,702,665 |
| 615,849 | 626,716 | 511,245 | 539,263 | 494,631 | 502,697 |
| 2,525,506,187 | 2,661,927,664 | 2,087,270,895 | 2,112,121,734 | 1,891,104,971 | 1,799,826,165 |
| 0 | 0 | 0 | 32,085,000 | 327,645,119 | 363,560,710 |
| 38,254,057 | 0 | 0 | 0 | 14,656,000 | 37,866,000 |
| 5.79 | 5.27 | 4.86 | 5.09 | 4.85 | 4.85 |
| 5.43 | 4.91 | 4.37 | 4.60 | 4.27 | 4.26 |
| 138% | 139% | 168% | 156% | 122% | 123% |
| $3,485,000 | $3,365,000 | $2,985,000 | $6,485,000 | $6,170,000 | $5,885,000 |
| $792,440,000 | $795,925,000 | $196,650,000 | $60,130,000 | $66,615,000 | $72,785,000 |
| $61,968,411 | $58,582,822 | $53,889,279 | $46,982,828 | $39,970,403 | $34,572,870 |

## Our Mission

The mission of the IMEA is to provide Member communities with quality utility services in a reliable, cost-effective and environmentally sensitive manner.

# Utility Work Ahead

Often you must have seen them, those orange signs in the berm or – worse – blocking the lane ahead of you on the road. Those Utility Work Ahead signs alert you to tree trimming, scheduled line maintenance, or, after a storm, to crews out restoring power. Many days, however, you can drive to and from work, run your errands and cart your children to their after-school events and not see a single Utility Work Ahead sign. Of course that doesn't mean that there is no utility work being done that day. Manufacturing, procuring and delivering electricity is a 24-hour-a-day, seven-days-a-week, 365-days-a-year job. That means – signs or not – there is always Utility Work Ahead.

The Illinois Municipal Electric Agency is honored to be a part of that work and a part of a team of dedicated public servants in 32 Illinois municipalities and one electric coop that deliver superior electrical services to their commercial, industrial and residential customers (their owners) at every minute of the day and night. Along with the men and women at the local electric utilities, we welcome the challenge and opportunities associated with there always being more Utility Work Ahead.

## The IMEA and its Work

The IMEA is a joint action agency formed in 1984 by its member municipalities in accordance with the provisions of the Illinois Municipal Code. Its stated purpose 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. Thirty-two municipalities and one rural electric cooperative comprise the membership of the IMEA.

In simple terms, the Agency's job is to produce or secure power for its Members and provide for that power to be delivered to the city gates. IMEA fulfills this part of its mission through ownership shares of generation facilities, through long-term and short-term power services contracts, and by working on Members' behalf on distribution agreements and transmission rights.

IMEA provides other services for its Members as well, including engineering, legal, education, electric efficiency, regulatory compliance and economic development services.

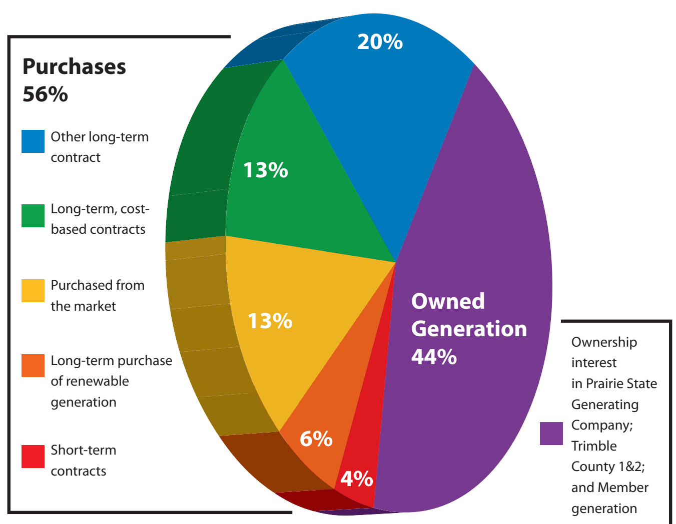
## Generating and Procuring Power for Members

In fiscal year 2012-13, IMEA's sales to participating members, which includes sales to RECC, was a little less than 4,250,660 MWh, but projections show that the load may grow to as much as 4,470,000 MWh by 2016.

In terms of owning and purchasing power for its Members, IMEA's strategy is to diversify its sources. Power markets fluctuate. For some periods, ownership is the more cost effective way of procuring power. For other periods, such as FY2012-13, purchasing power on the market is more cost effective. Rather than attempt to outguess the market, IMEA employs a mix of ownership, long-term power purchasing contracts and short-term market purchases. This strategy can mean that IMEA's mix of resources does not always yield the lowest prices for Members, but it practically assures that rates will not spike severely due to market volatility. Rather, a mixed portfolio of resources is designed to keep energy rates for our Members in a range that is somewhere comfortably between the market's price extremes. This allows our Members to have some ability to forecast their power supply's future cost.

For fiscal year 2012-13, about 44 percent of IMEA's power supply requirements were met by IMEA-owned or Member-owned generation resources. The other 56 percent came from long-term, cost-based contracts; other long-term power contracts; short-term contracts; and market purchases.

**IMEA 2013 Portfolio of Generated and Purchased Power Supply**



## Power Generation

On November 2, 2012, the second of two nominally net rated 800 MW supercritical units at the Prairie State Generating Company began commercial operation at this mine-mouth, coal-fired generating station in southern Illinois. Prairie State Unit 2 joined Unit 1, which began commercial operation on June 6, 2012.

IMEA is one of eight Midwestern-based public power utilities with an ownership interest in this facility. IMEA's share is 15.17 percent, which represents more than 240 megawatts of the two units' combined generating capacity.

The commercial operation of Prairie State marked a major milestone for IMEA, which committed to the Prairie State project in 2007. Prairie State gives the IMEA and its co-owners a secure source of base-load power with more than 30 years' worth of coal reserves, with the aim of providing municipal customers with steady, affordable rates for decades.

The Prairie State campus features an investment of more than $1 billion worth of best available control technology to create the cleanest coal-fueled power plant in Illinois and one of the cleanest in the world. Prairie State's emissions equipment removes 98 percent of nitrogen oxide ($NO_X$), more than 98 percent of sulfur dioxide ($SO_2$), more than 99 percent of particulate material (PM) and more than 95 percent of mercury, which are the top four monitored emissions. This responsible and forward thinking design means that the plant is in compliance with all existing emissions regulations.

IMEA also owns 12.12 percent of the Trimble County 1 and Trimble County 2 generating facility located between Louisville and Cincinnati. Trimble County 1 is a 514 MW coal-fired combustion unit, and Trimble County 2 is a 750 MW supercritical, pulverized coal-fired unit.

In addition to the Prairie State and Trimble County facilities, in times of emergency – or when it is economically advantageous – the IMEA can call on dozens of Member-owned and Agency-owned diesel and natural gas-fired generating units.

*The two 800 MW supercritical, coal-fired generating units at the Prairie State Generating Company began commercial operation in Fiscal Year 2012-13.*

Though coal-fired units such as the ones at Trimble County and Prairie State are a major source of IMEA's base load power for now and into the future, the Agency has committed to a diversified energy portfolio. In 2009, the IMEA Board of Directors adopted a policy that directs the Agency to acquire approximately five percent of its energy requirements from renewable resources. Toward that goal, IMEA has entered into a long-term contract to purchase 70MW of wind energy from the Lee-DeKalb wind project owned by FPL Energy Illinois Wind, LLC. The contract runs to 2030.

## Power Purchases

The IMEA has executed procurement contracts that are supported by a mix of coal-fired and natural gas-fired units. These contracts offer a measure of price stability for the Agency and its Members.

In addition, IMEA's Operations Department makes purchases and sales in the day-ahead and in the hourly markets in the Midcontinent Independent System Operator (MISO) and the Pennsylvania, Jersey, & Maryland (PJM) Regional Transmission Organizations (RTOs). The use of these markets ensures that Member agencies have access to power when demand is high and gives the IMEA the opportunity to sell power to the grid when it is not needed by Members.

## Optimizing Resources, Managing Transmission Congestion and Seizing New Energy Procurement Opportunities


As part of the fiscal year 2013-14 budget discussions, the IMEA board agreed to add to the IMEA staff the new position of Manager of Energy Markets & Settlements. IMEA anticipates hiring a manager by midway through the fiscal year who will work toward realizing a number of opportunities that now present themselves to the Agency.

IMEA has grown dramatically over the past few years. As recently as 2010, IMEA earned nearly $180 million per year in revenues. With the additions of Naperville and Red Bud as full-requirements Members and with the Rural Electric Convenience Cooperative as a power purchaser, IMEA is now approximately a 1,050 MW system with annual revenues of $304 million.

As of 2013, those annual revenues put IMEA within the top 10 joint action agencies in the U.S. in terms of annual revenue.

In addition to the member load and revenue growth, IMEA has seen a substantial change in resource structure and regional transmission organization market compliance obligations. Over the past few years, the hourly, daily, monthly and annual RTO obligations have continued to grow with the additional responsibilities and market structure changes that MISO and PJM have added to comply with Federal Energy Regulatory Commission (FERC) directives. These functions include expansion of the Midcontinent Independent System Operator RTO service territory with Entergy's arrival in December 2013, the three-year forward looking capacity market in the PJM interconnection RTO and the new annual capacity market in MISO, not to mention all of the RTO Web site/portal requirements that keep IMEA staff busy.

A significant change since 2010 is that, with the addition of the Prairie State units, IMEA now owns nearly 400 MW of base-load, long-term resources. These need to be strategically placed in the markets for annual and monthly capacity value, as well as being evaluated daily and hourly in the energy markets.

IMEA staff members have worked alongside top consultants to find ways to optimize the short- and long-term utilization of these new and existing IMEA resources and contracts. The Agency has made considerable progress, but there is still work to do.

IMEA is now an industry leader, and is committed to continue offering industry leading services to its Members. Exploring and taking advantage of market and resource management opportunities is one such service.

## Operational and Technical Support

Many IMEA departments work together to offer Members state-of-the-art operational and technical services.

### Operations

IMEA maintains a 24-hour-a-day, seven-day-a-week, state-of-the art Operations Center staffed by highly skilled power supply professionals. The Operations Department alerts local officials of power dips and outages and works with the Members and representatives from investor-owned utilities serving the area to identify the exact location of downed lines or malfunctioning equipment and rectify the problem. In extreme conditions, IMEA Operations Center staff will alert the coordinators of the Illinois Municipal Utilities Association's Mutual Aid Program to send volunteer crews from other Member municipalities to help an IMEA Member community restore power.

*Working out of the state-of-the-art IMEA Operations Center, the IMEA Operations Department makes purchases and sales in the day-ahead and in the hourly markets and also monitors all IMEA dedicated generating units and Member delivery points in order to alert local officials of power dips and outages.*

### Engineering

IMEA electrical engineers and technicians supplement the work of IMEA Members' engineers and electric department personnel. They assist the Members with such tasks as preparing emission reports, stack-emission analyses, coordination of delivery point improvements and preventive maintenance activities, load flow studies, power factor improvement recommendations and key account customer support (such as meter testing, programming and power quality surveys). Over the past year, IMEA engineers have worked extensively to assist in the installation of new diesel generators or the retrofitting of existing diesel generators to meet the U.S. Environmental Protection Agency's new National Emissions Standards for Hazardous Air Pollutants (NESHAP) regulations. When those regulations took effect in May 2013, all Member dedicated generation was either compliant or nearing compliance.

*IMEA Electrical Engineer Tanner Jones checks the performance of a diesel generating unit in Sullivan, Illinois.*

## Legal

IMEA employs a full-time General Counsel to manage the legal and regulatory aspects of the Agency's corporate, governmental and utility industry activities and contracts that underlie almost every service the Agency provides for its Members. The General Counsel also advises the President & CEO, IMEA Board and staff on legal and regulatory matters and manages specialized outside counsel when required by the Agency.

IMEA hires outside legal counsel from time to time to provide advice and/or representation to the Agency in connection with specialized legal matters. For example, IMEA may engage outside counsel: (1) to conduct various transactions and documentation required when IMEA issues bonds, especially tax-exempt bonds, which require specialized knowledge and skill in addressing matters involving the rules and regulations of the Internal Revenue Service of the United States government; (2) to provide advice and representation in connection with environmental laws, regulations and proceedings involving the state or federal Environmental Protection Agencies; (3) to represent the Agency's interests before the Federal Energy Regulatory Commission, including matters involving rates and charges, terms and conditions of service, practices and standards governing transmission services that the Agency purchases from regulated providers, or to represent the Agency's interests on matters involving a regional transmission organization and the Agency's market purchases of capacity and energy; and (4) to represent the Agency in litigation before state or federal courts when required to enforce or protect the Agency's interests.

In addition to performing all the legal work the Agency requires, IMEA's on-staff legal counsel serves as a resource to IMEA member communities, often providing assistance on such questions as territorial service rights and retail customer choice under Illinois' deregulation statutes.

## Working to Influence and Comply with Regulatory and Legislative Issues

The IMEA finds itself either directly subject to (or concerned with) a number of laws, regulations and standards established by such authorities as the North American Electric Reliability Corporation (NERC), the Federal Energy Regulatory Commission (FERC) , the Environmental Protection Agency, the Illinois General Assembly and the U.S. Congress.

The IMEA works to ensure its compliance with current laws and regulations, and, in some instances, the Agency helps Members with their compliance efforts. The IMEA also supports advocacy efforts for establishing responsible public policy on energy issues.

## Reliability and Regulatory Compliance

IMEA is registered with the North American Electric Reliability Corporation (NERC) under two of NERC's eight regional entities: Reliability First Corporation (RFC) and Southeast Electric Reliability Corporation (SERC). IMEA is registered with RFC and SERC as a Purchasing-Selling Entity (of energy, capacity and interconnected operations services) and as a Resource Planner (responsible for having a long-term plan for resource adequacy). IMEA is also registered as a Distribution Provider, Load-Serving Entity and Transmission Owner on behalf of certain municipal Members depending on those Members' assets owned and load served (that is, if they are interconnected to the grid at 100 kV or above and serve a peak load greater than 25 MW). This is referred to as a Joint Registration Organization (JRO) Member. IMEA must monitor each individual Member's status to determine the need to update its registration status.

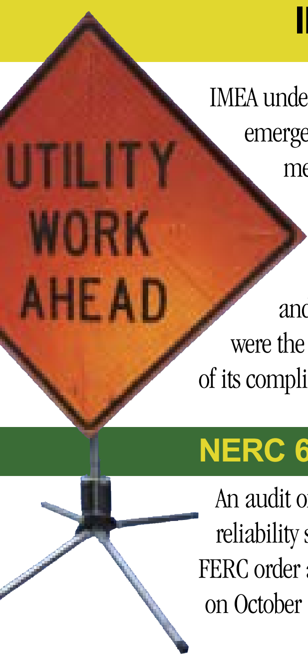
RFC and SERC have individual Compliance Monitoring and Enforcement Program schedules that require IMEA to periodically submit Self-Certifications and/or Data Submittals. These address IMEA's status of compliance with numerous NERC reliability standards that apply to one or more of IMEA's registered functions. Lead responsibility for compliance typically falls to the IMEA Operations Center, IMEA's Engineering Department and/or individual JRO Members (currently Highland, Naperville, Princeton and Winnetka). In addition to scheduled compliance submittals, IMEA diligently monitors NERC, RFC and SERC requests for additional compliance information.

Once a proposed reliability standard is approved by NERC and FERC, IMEA monitors the implementation period in order to assure compliance processes are in place.

On top of complying with reliability standards that have been approved by NERC and FERC, IMEA continually monitors NERC, RFC and SERC development of new reliability standards and revision of existing reliability standards.

In addition to reviewing these proposals for potential impact on IMEA and Member interests and compliance obligations, IMEA interacts with the American Public Power Association (APPA), the Transmission Access Policy Study Group (TAPS) and other industry groups to collaborate on influencing how these reliability standards are developed.

## 2013 NERC Audits Give IMEA High Marks




IMEA underwent two NERC Audits in Fiscal Year 2012-13 and emerged from both with "No Findings" from the audit teams, meaning that the audit team found no possible violations by IMEA and its Joint Registration Organization (JRO) Members, with the exception of a potential violation that IMEA self-reported before the audit and which has since been remedied. The clean audits were the result of much preparation, including a gap analysis of its compliance program in 2010 and a mock audit in 2012.

### NERC 693 Compliance Audit

An audit of IMEA's compliance with operations and planning reliability standards (referred to as a 693 Audit, based on the FERC order approving the NERC standards in 2007) was initiated on October 23, 2012 and concluded on January 22, 2013.

Each NERC standard contains requirements and sub-requirements that specify the details that need to be met for compliance. The purpose of these requirements is to achieve NERC's statutory mandate to ensure the reliability of the bulk electric system.

The 693 standards fall into 14 broad areas, including such areas as:

- Critical Infrastructure Protection;
- Facilities Design, Connections, Maintenance and Transfer Capabilities;
- Modeling, Data, and Analysis; and
- Protection and Control.

IMEA's registration with NERC requires it to undergo a compliance audit every six years. The January audit was the first audit of the Agency for adherence to the NERC 693 Reliability Standards that apply to IMEA and its JRO Members.

*A team of IMEA staff members, as well as employees of IMEA's JRO Members, cooperated to prepare for two NERC audits in fiscal year 2012-13. Both audits concluded that there was no evidence of non-compliance with the federal standards on behalf of IMEA and its JRO Members. Shown here are IMEA's Vice President of Operations Alice Schum, Vice President of Engineering Kevin Wagner, Vice President & General Counsel Troy Fodor, Director of Reliability & Regulatory Compliance Bob Thomas, Electrical Engineer Tanner Jones and President & CEO Kevin Gaden.*

Based on the quality of evidence submitted by IMEA over the months prior to the audit, the audit team from NERC's Reliability First Corporation reduced what was to be a nearly weeklong onsite process to a one-day audit session.

At the conclusion of the onsite portion of the audit, auditors presented the Agency with an exit briefing explaining that the team

## The Illinois Municipal Electric Agency at a Glance

**IMEA is ...**
a not-for-profit unit of local government created in 1984 that is currently comprised of 32 municipal electric systems and one electric cooperative from all across Illinois. Each of those IMEA Member communities owns and operates its own electric distribution system. Some Members operate local power generation plants.

**IMEA's focus is ...**
the reliable delivery of bulk power and energy to its Members at low and stable prices. IMEA combines the power needs of all of its Members and secures the electricity necessary to satisfy those needs. The Agency sells its Members all their wholesale power needs under long-term power supply contracts. To accomplish this goal, IMEA has assembled a portfolio of power supply ownership and long-term purchase power agreements.

**IMEA backs its commitment to power supply excellence...**
with a 24-hour-a-day, seven-days-a-week Operations Center staffed by highly skilled power supply professionals. In addition, IMEA provides engineering, legal, communications, economic development, legislative and regulatory oversight services and an energy efficiency program for its Members.

**Putting forth a wealth of experience ...**
IMEA's six senior officers have a combined 150 years' experience in all facets of the electric industry – from engineering to marketing to project management to finance to regulation.

did not discover areas of non-compliance based on the evidence presented by IMEA and reviewed by the audit team, although the team did note one Open Enforcement Action concerning the implementation of transmission protection system maintenance and testing. That possible violation had been self-reported by the Agency prior to the audit, and IMEA had already demonstrated corrective action had been completed.

The audit team made six recommendations for the Agency to implement for program refinement, and these are being implemented.

## NERC Critical Infrastructure Protection (CIP) Audit

As part of its registration with NERC, IMEA and its JRO Members must comply with certain Critical Infrastructure Protection (CIP) Reliability Standards that address cybersecurity.

Each year, IMEA and the JRO members must conduct a risk-based assessment to determine whether any assets are owned that could adversely affect the reliability of the bulk electric system if those assets were destroyed, degraded or rendered unavailable. These assessments over the past five years have determined that neither IMEA nor its JRO Members own such critical cyber assets.

An audit of IMEA's compliance with the CIP standards was initiated on March 19, 2013, and concluded on June 25, 2013. An audit team from NERC's Reliability First Corporation assessed IMEA's risk-based assessment methodology and assessment results over the last five years. The audit team determined that there were no findings from the audit (that is, that there were no areas of non-compliance).

This was the first CIP audit of IMEA since compliance with the CIP standards became effective in 2008. The audit team complimented IMEA's compliance efforts and participation during the CIP audit, and commented it "observed strong communication and coordination between IMEA and their member municipals."

While IMEA is pleased with the audit results, it is already preparing for a new version of CIP standards, which have been approved by NERC and will soon be approved by the FERC. These new CIP standards will expand IMEA's cybersecurity obligations by including other categories of assets in order to minimize potential vulnerabilities to the nation's bulk electric system.

## Legislative Advocacy



In conjunction with its affiliation with the American Public Power Association (APPA) and through its association with the Illinois Municipal Utilities Association (IMUA), the IMEA tracks state and federal legislation and regulations that affect its Members, provides regular alerts and engages in timely lobbying efforts. Recent issues included work on:

- *The formation of regulations concerning the National Emissions Standards for Hazardous Air Pollutants (NESHAP) for Compression Ignition Reciprocating Internal Combustion Engines (RICE),* which went into effect in May 2013 in a manner that was generally favorable to IMEA Members and for which they were well prepared.
- *Preservation of tax-exempt financing.* Under the President's Fiscal Year 2014 Budget Proposal, the tax deduction for municipal bonds would be capped at 28 percent. With limits on the tax-exempt nature of municipal bonds, local capital construction projects and critical infrastructure projects would become much more expensive, and many would be delayed or abandoned. IMEA, in conjunction with the American Public Power Association, continues to monitor legislation threatening tax-exempt financing and to educate lawmakers on the necessary benefits of tax-exempt financing for units of local government.
- *Advocacy to prevent further cuts to Build America Bond payments to IMEA and other public entities*. Under the federal sequester practices that went into effect in March 2013, IMEA stood to lose more than $850,000 of direct payments for the year from the federal government for the Build America Bonds the Agency issued to help finance the construction of Prairie State. IMEA staff directly approached the members of the Illinois congressional delegation, arguing that Section 6431 of the Internal Revenue Code does not give discretion to the Treasury Secretary to adjust the payment on Build America Bonds. Unfortunately, these cuts are part of many larger cuts across the board, and a solution seems to be tied to some overall budget agreement, yet to be negotiated by Congress. IMEA, through its management of the Illinois Municipal Utilities Association, continues to work with the American Public Power Association and other groups representing the interests of Build America Bond issuers.

Through the Illinois Municipal Utilities Association, 50 people representing 18 IMEA communities took part in the American Public Power 2013 Legislative Rally in March to meet with representatives of Congress to discuss issues such as tax-exempt financing and remind these national leaders of the benefits of municipal power.

On the state level, IMEA worked to prevent unwarranted changes to the Open Meetings Act and the Freedom of Information Act and supported an as yet unsuccessful effort to allow for a slight surcharge on wireless carriers to help fund emergency services.

## Working to Provide Value-Added Services

In addition to providing its member communities with operational, technical, regulatory compliance and advocacy support services, IMEA helps its Member utilities and their communities in a number of other ways. Among them are:

- Aiding economic development efforts with Member systems;
- Training of utility department personnel through the Illinois Municipal Utilities Association; and
- Delivery of an electric efficiency program for all Member systems.

### Economic Development

*The City of Roodhouse asked IMEA to help facilitate remediation of environmental issues that threatened development at a site (left photo). As a result, Dollar General built a new store on the site (right).*

It's no surprise that municipalities that have maintained their own electric utility departments – some for more than 100 years – sometimes leverage their outstanding reliable and predictably priced electric service to aid with their economic development efforts. When asked, IMEA staff assists member municipalities with their economic development efforts. In the City of Roodhouse, a community of about 2,300 people in Greene County, municipal officials worked with the IMEA to facilitate the remediation of environmental issues at a site that threatened development. As a result, Dollar General built a new store on the site, which opened in February 2012. The new business has spawned renewed interest in other nearby available facilities.

In fiscal year 2012-13, the City of Oglesby announced the construction of two new businesses in the LaSalle County town of about 3,700 people. Plans for a new Love's Travel Stops & Country Store were announced in 2012 and site work was begun in July 2013. The new travel plaza will include a Hardee's restaurant and a tire repair shop. The city is also preparing for the construction of a new County Market supermarket, which is expected to break ground in 2013.

The city's effort to attract the County Market was spearheaded by Mayor Don Finley who refused to let potential developers overlook the city's advantages, including an ample and able workforce; proximity to interstate, rail and barge transportation; and a ready infrastructure that includes a reliable, municipally owned electric utility.

### Electric Efficiency Program

The Agency's Electric Efficiency Program began in 2009, with a program that provides funds to go toward the purchase and installation of energy efficient technologies for IMEA Members and their commercial and industrial electric customers. The program helps cities and their customers reduce their electric demand and their electric consumption and therefore reduce the Members' wholesale power costs. This allows Members to shift dollars for other needs and to enhance their economic climate by making utility costs more affordable for established and potential businesses. Examples of projects that qualify for incentives include the installation of light-emitting diode (LED) street lights and lighting systems; replacement of inefficient industrial motors with more energy-efficient and variable-speed versions; installation of geothermal or other high-efficiency Heating, Ventilation and Air Conditioning (HVAC) systems; and, the installation of a variety of "smart-grid" and power-factor improvement equipment.

As of July 2013, 145 energy efficiency projects had been completed since the start of the program. Member municipalities and their commercial and industrial customers are estimated to have reduced energy consumption by more than 14.8 million kWh annually.

In August 2011, IMEA began what has become a three-year, $300,000 commitment to the Recycle My Fridge program, aimed at taking residents' secondary refrigerators off the grid. The IMEA administers the program in conjunction with the Appliance Recycling Centers of America (ARCA), Inc. Residents served by an IMEA Member utility can easily get rid of an old refrigerator or freezer taking up space in the basement or garage and receive a $35 prepaid card for doing so.

From August 2011 through July 2013, residents in IMEA Member communities recycled 763 refrigerators and freezers, realizing an estimated annual energy savings of nearly 1.2 million kWh annually.


### St. Charles and Naperville Sites Chosen for Energy Storage Demonstration Projects

City-owned facilities in St. Charles and Naperville are taking part in energy storage demonstration projects that are anticipated to help ease the burden on the electric grid during the hottest hours of the summer.

*The IceBear is installed at the City of Naperville's Water Service Center in May 2013*

The cities announced in December 2012 that they would be working with Verde Energy USA to launch these energy efficiency projects. Verde invested the funds necessary to purchase and install new air conditioning units, as well as Ice Energy's "Ice Bear"™ technology, a smart grid-enabled distributed energy storage system, at St. Charles' Municipal Water Treatment Laboratory building and at Naperville's Water Service Center. The units were installed in May 2013.

The Ice Bear relieves the workload on an air conditioner's conventional condensing units. It shifts air conditioning electrical power demand to off-peak hours by using water to make ice at night, when the electric grid is generally unstressed. Then, during a hot summer day, when demand goes up and electric prices may be higher, the melting ice provides the cooling that otherwise would have to come from the air conditioner's compressor. At the end of the day, the melted water is then recycled through the system and the ice making processes begins again at night. The result is lower energy costs and increased electric grid reliability.

The relationships between Verde and the cities of Naperville and St. Charles came about after Verde reached out to the IMEA to help find suitable demonstration sites at city buildings in northern Illinois cities with municipal electric departments. The cities and the IMEA will monitor the progress of these demonstration projects. Any actions that St. Charles and Naperville take that result in reducing peak demand and that demonstrate innovative energy efficiency measures will not only allow customers to test the state of the art, but will also help to transfer that opportunity to all utility customers in those cities.

## Association and Agency Management

Under Management Services Contracts that continue through the end of this decade, IMEA manages the Illinois Public Energy Agency (IPEA) and the Illinois Municipal Utilities Association (IMUA).

Formed in 1948, the IMUA is a statewide trade association that provides a wide variety of services to its 60 municipal members, including active governmental representation before the Illinois General Assembly and other administrative and regulatory bodies both in Illinois and at the federal level, including Congress. IMUA also provides a diverse array of vital training programs and activities for municipal electric, natural gas, telecommunications, water and wastewater treatment utilities. IMUA also administers a voluntary mutual aid program designed to assist members with restoration of energy services and other vital community services in the event of natural disasters such as storms, floods and tornadoes.

*Under a management services contract, the IMEA oversees the day-to-day operation of the Illinois Municipal Utilities Association (IMUA). One of the many services the IMUA provides to its members is safety training for municipal utility workers, including those that serve on municipal electric department line crews.*

The IPEA, which was formed in 2005, is a wholesaler of natural gas to 13 municipal systems and two cooperative natural gas systems across Illinois. IMEA provides managerial oversight for the IPEA's day-to-day operations. IPEA has, in its eight years of operation, become one of the leading natural gas joint-action agencies in the Midwest.

### Highlights of the Fiscal Year Ending April 30, 2013

- IMEA hit an all-time coincidental peak of 1,052.8 MW reached on July 6, 2012.
- Units 1 and 2 of the Prairie State Generating Company began commercial operation on June 6, 2012, and November 2, 2012, respectively. Each unit has an 800 MW nominal capacity. IMEA's ownership share is 15.17%, which represents more than 240 MW of capacity.
- Total operating expenses were $242,586,488, which was 3.73% under budget.
- Sales to fully participating members and RECC were 4,250,659,886 kWh, bringing in sales revenue of $302,443,871 (up from $278,792,540 in 2012).
- Average cost of power sold to members was 7.09 cents per kWh.
- Total operating income was $61,896,377 (up from $29,517,293 in 2012).
- Total net position was $110,308,406 (up from $94,833,132 in 2012).
- As of 2013, IMEA has become one of the top 10 joint action agencies in the United States as measured in terms of annual revenue.

# Summary of IMEA Sales to Members
# Fiscal Year Ending April 30, 2013

| Participating Members | Non-Coincident Peak Demand (kW) | Energy Usage (kWh) | Population |
|---|---|---|---|
| Altamont | 6,965 | 25,300,699 | 2,319 |
| Bethany | 2,776 | 9,614,110 | 1,352 |
| Breese | 13,744 | 54,041,183 | 4,442 |
| Bushnell | 9,564 | 37,320,568 | 3,117 |
| Cairo | 12,461 | 72,976,855 | 2,831 |
| Carlyle | 10,342 | 40,596,054 | 3,281 |
| Carmi | 16,267 | 60,793,859 | 5,240 |
| Casey | 8,608 | 33,680,615 | 2,769 |
| Chatham | 25,358 | 81,704,673 | 11,500 |
| Fairfield | 20,109 | 77,904,251 | 5,154 |
| Farmer City | 5,481 | 21,166,091 | 2,037 |
| Flora | 27,293 | 126,463,394 | 5,070 |
| Freeburg | 12,009 | 44,361,446 | 4,354 |
| Greenup | 4,352 | 16,785,506 | 1,513 |
| Highland | 38,492 | 143,650,810 | 9,919 |
| Ladd | 3,426 | 14,468,279 | 1,295 |
| Marshall | 15,098 | 68,544,522 | 3,933 |
| Mascoutah | 17,374 | 59,146,676 | 7,483 |
| Metropolis | 22,176 | 89,579,835 | 6,537 |
| Naperville | 402,273 | 1,519,904,665 | 141,853 |
| Oglesby | 9,850 | 37,562,250 | 3,791 |
| Peru | 53,662 | 208,611,680 | 10,295 |
| Princeton | 27,069 | 112,551,184 | 7,660 |
| Rantoul | 36,453 | 160,364,171 | 12,941 |
| Red Bud | 13,766 | 53,108,894 | 3,698 |
| Riverton | 7,363 | 23,194,765 | 3,455 |
| Rock Falls | 22,158 | 77,855,490 | 9,266 |
| Roodhouse | 3,591 | 12,361,635 | 1,814 |
| St. Charles | 129,504 | 553,353,207 | 32,974 |
| Sullivan | 16,864 | 70,650,967 | 4,440 |
| Waterloo | 24,614 | 92,058,662 | 9,811 |
| Winnetka | 39,616 | 135,843,779 | 12,187 |
| Total Full Requirements Sales to Participating Members | 1,058,678 | 4,135,520,775 | |
| Sales to RECC | 25,786 | 115,139,111 | |
| Total Sales | 1,084,464 | 4,250,659,886 | |

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

## FINANCIAL STATEMENTS
Including Independent Auditor's Report

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As of and for the Years Ended April 30, 2013 and 2012

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# 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, 2013 and 2012, 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, 2013 and 2012, and the changes in its financial position and its cash flows 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

***Emphasis of Matter***

As discussed in Note 1, IMEA adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective May 1, 2012. Our opinion is not modified with respect to this matter.

***Other Matter***

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 17, 2013

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2013 and 2012
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, 2013 and 2012. 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, 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, 2013 and 2012
UNAUDITED

**IMEA FINANCIAL ANALYSIS** (cont.)

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Utility plant | $ 1,121,178,815 | $ 1,122,692,824 | $ 1,010,776,621 |
| Restricted assets | 141,967,394 | 173,261,805 | 290,029,063 |
| Current assets | 93,004,477 | 70,343,910 | 56,948,779 |
| Other Assets | 20,407,630 | 24,044,320 | 27,463,157 |
| Total Assets | $ 1,376,558,316 | $ 1,390,342,859 | $ 1,385,217,620 |
| Net Position: | | | |
| Net investment in capital assets | $ 38,246,632 | $ 56,272,056 | $ 67,473,669 |
| Restricted | 2,015,940 | - | - |
| Unrestricted | 70,045,834 | 38,561,076 | 9,313,877 |
| Total Net Position | 110,308,406 | 94,833,132 | 76,787,546 |
| Noncurrent liabilities | 1,193,802,264 | 1,233,394,943 | 1,248,156,946 |
| Current liabilities | 72,447,646 | 62,114,784 | 60,273,128 |
| Total Liabilities | 1,266,249,910 | 1,295,509,727 | 1,308,430,074 |
| Total Net Position and Liabilities | $ 1,376,558,316 | $ 1,390,342,859 | $ 1,385,217,620 |

## STATEMENTS OF NET POSITION

During the year ended April 30, 2013, utility plant decreased by $1,514,009. IMEA's capital investments made during the year included total payments of $16,961,953 toward the capital costs associated with the Prairie State project, general improvements to Trimble County Units 1 & 2 and other smaller capital acquisitions and improvements. Total current liabilities associated with these capital improvements were $4,647,527 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 $27,081,063 was recorded during the year.

For the previous year ended April 30, 2012, utility plant increased by $111,916,203. IMEA's capital investments made during the year included total payments of $87,247,937 toward the construction costs associated with the Prairie State project, general improvements to Trimble County Units 1 & 2 and other smaller capital acquisitions and improvements. Total current liabilities associated with these capital improvements were $3,275,660 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 $7,796,362 was recorded during the year.

See accompanying independent auditors' report.

**IMEA FINANCIAL ANALYSIS** (cont.)

During the fiscal year ended April 30, 2013, IMEA increased the cash and short-term investments held in operating reserve accounts by $6,841,117 from the previous year due to the members' continued commitment to increase cash reserves held by the Agency. Accounts receivable increased by $3,170,048 due primarily to a 5% increase in sales during the month of April. Other assets decreased by $3,636,690 due to the amortization of certain deferred costs. Net position increased due to current year operations that resulted in net income of $15,475,274. Principal repayments associated with the Agency's outstanding revenue bonds totaled $23,675,000. IMEA is scheduled to repay an additional $35,285,000 on the outstanding revenue bonds on February 1, 2014 which represents most of the increase in current liabilities. The Agency also repaid $4,500,000 which was previously drawn against a line of credit facility available to IMEA. The total undrawn portion of this line of credit was $44,000,000 as of April 30, 2013.

During the fiscal year ended April 30, 2012, IMEA increased the cash and short-term investments held in operating reserve accounts by $3,749,335 from the previous year due to the members' continued commitment to increase cash reserves held by the Agency. Accounts receivable increased by $8,521,789 due primarily to the addition of the City of Naperville as a full requirements purchaser on June 1, 2011. Other assets decreased by $3,418,837 due to the amortization of certain deferred costs. Net position increased due to current year operations that resulted in net income of $18,045,586. Principal repayments associated with the Agency's outstanding revenue bonds totaled $8,795,000. The Agency also made draws totaling $10,500,000 against a line of credit facility available to IMEA. The total undrawn portion of this line of credit was $14,500,000 as of April 30, 2012.

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. The final maturity of the Series 2010 Bonds is February 1, 2035. The Series 2010 Bonds were issued to finance 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.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2013 and 2012
UNAUDITED

## IMEA FINANCIAL ANALYSIS (cont.)

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

| | | | |
|---|---|---|---|
| Operating revenues | $ 304,482,865 | $ 280,659,674 | $ 176,834,693 |
| Depreciation expense | 27,081,063 | 7,796,362 | 4,454,531 |
| Other operating expenses | 215,505,425 | 243,346,019 | 152,565,582 |
| Total Operating Expenses | 242,586,488 | 251,142,381 | 157,020,113 |
| Operating Income | 61,896,377 | 29,517,293 | 19,814,580 |
| Investment income | 2,089,378 | 6,540,210 | 4,662,809 |
| Interest and amortization expense | (48,510,365) | (18,026,032) | (10,334,613) |
| Other income/(expense) | (116) | 14,115 | 3,911 |
| Total Nonoperating Expenses | (46,421,103) | (11,471,707) | (5,667,893) |
| Change in Net Position before Special Item | 15,475,274 | 18,045,586 | 14,146,687 |
| Special Item | - | - | (1,179,024) |
| Change in Net Position | 15,475,274 | 18,045,586 | 12,967,663 |
| Net Position, Beginning of Year | 94,833,132 | 76,787,546 | 63,819,883 |
| Net Position, End of Year | $ 110,308,406 | $ 94,833,132 | $ 76,787,546 |

See accompanying independent auditors' report.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2013 and 2012
UNAUDITED

## IMEA FINANCIAL ANALYSIS (cont.)

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

Sales to participating members of $293,252,375 and 4,135,520,775 kilowatt hours ("kWh") were recorded during the fiscal year ended April 30, 2013. This represented an increase of $23,541,513 (9%) in revenue from sales to participating members and 224,614,756 kWh (6%) as compared with the previous year. IMEA provided full requirements service to the City of Naperville for twelve months in FY 2013 as opposed to eleven months in the previous year. IMEA also supplies the Rural Electric Convenience Cooperative (RECC) with full requirements power supply service which accounted for additional revenue of $9,191,496 which is reflected in sales to others.

Sales to participating members of $269,710,862 and 3,910,906,019 kilowatt hours ("kWh") were recorded during the fiscal year ended April 30, 2012. This represented an increase of $103,235,911 (62%) in revenue from sales to participating members and 1,319,363,942 kWh (51%) as compared with the previous year. The increase in revenue and kWh sales was mainly attributable to IMEA beginning to provide full requirements service to the City of Naperville on June 1, 2011. IMEA began supplying the Rural Electric Convenience Cooperative (RECC) with full requirements power supply service in 2009. The sales to RECC under this agreement accounted for additional revenue of $9,081,678 which is reflected in sales to others.

During the fiscal year ending April 30, 2013, IMEA recorded a coincident peak demand of 1,053 MW which was approximately 1% higher than the 1,044 MW experienced in the previous year. The total member non-coincident peak demand was 1,084 MW which included both sales to participating members and to RECC. This non-coincident peak demand was approximately 2% higher than the previous year.

The average cost of power sold to the participating members during the year ending April 30, 2013 was 7.09 cents per kWh which was approximately 3% higher than the previous year. The average cost of power sold to the participating members during the year ending April 30, 2012 was 6.89 cents per kWh which was approximately 7% higher than the previous year.

For the year ended April 30, 2013, total operating expenses decreased by $8,555,893 (3%) from the previous year due primarily to the Prairie State Energy Campus becoming operational during the fiscal year. During this past year, interest income decreased by $4,450,832 due to the continuing low interest rate environment.

For the year ended April 30, 2012, total operating expenses increased by $94,122,271 (60%) from the previous year due primarily to beginning service to the City of Naperville. During this year, interest income increased by $1,877,401 due to unrealized gains on investments made in previous years.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2013 and 2012
UNAUDITED

## 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, 2013 and 2012 was approximately 113% and 119% respectively after transfers to the rate stabilization account. IMEA transferred $6,500,000 during the year ended April 30, 2013 and $2,100,000 during the year ended April 30, 2012 into the rate stabilization account which reduced the debt service covered during both of these years.

## SIGNIFICANT EVENTS

### POWER SALES CONTRACTS WITH NEW PARTICIPATING MEMBERS

IMEA began providing service to the City of Red Bud under a long-term contract on January 1, 2011 which added approximately 14 MW to IMEA's peak demand. IMEA also began providing full requirements service to the City of Naperville on June 1, 2011 which added approximately 400 MW to IMEA's peak demand.

### POWER SUPPLY SYSTEM REVENUE BONDS

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.

### TRIMBLE COUNTY UNIT 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's owns a 12.12% undivided interest as tenant in common in the unit.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2013 and 2012
UNAUDITED

## SIGNIFICANT EVENTS (cont.)

### PRAIRIE STATE PROJECT

IMEA is part of the consortium known as the Prairie State Generating Company, LLC. IMEA owns a 15.17% 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 development of a mine portal 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.

### 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.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

STATEMENTS OF NET POSITION
As of April 30, 2013 and 2012

## *ASSETS*

| | 2013 | 2012 |
|---|---|---|
| **UTILITY PLANT** | | |
| Utility plant in service | $ 1,195,929,045 | $ 291,709,305 |
| Accumulated depreciation | (90,805,814) | (64,168,292) |
| Construction work in progress | 16,055,584 | 895,151,811 |
| Total Utility Plant | 1,121,178,815 | 1,122,692,824 |
| **RESTRICTED ASSETS** | | |
| Investments | 141,967,394 | 173,261,805 |
| **CURRENT ASSETS** | | |
| Cash and investments | 42,762,853 | 35,921,789 |
| Short-term investments | 2,768,463 | 2,768,410 |
| Accounts receivable | 24,452,437 | 21,259,892 |
| Bond interest subsidy receivable | 2,412,267 | 2,434,764 |
| Allowance inventory | 259,223 | 169,455 |
| Prepayments | 20,349,234 | 7,789,600 |
| Total Current Assets | 93,004,477 | 70,343,910 |
| **OTHER ASSETS** | | |
| Unamortized debt issuance costs | 8,768,166 | 9,514,989 |
| Deferred assets | 11,639,464 | 14,529,331 |
| Total Other Assets | 20,407,630 | 24,044,320 |
| **TOTAL ASSETS** | $ 1,376,558,316 | $ 1,390,342,859 |

## *NET POSITION AND LIABILITIES*

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **NET POSITION** | | | | |
| Net investment in capital assets | $ | 38,246,632 | $ | 56,272,056 |
| Restricted | | 2,015,940 | | - |
| Unrestricted | | 70,045,834 | | 38,561,076 |
| Total Net Position | | 110,308,406 | | 94,833,132 |
| **NONCURRENT LIABILITIES** | | | | |
| Revenue bonds | | 1,174,390,000 | | 1,209,675,000 |
| Other long-term debt - line of credit | | 6,000,000 | | 10,500,000 |
| Unamortized premium | | 11,835,286 | | 13,023,658 |
| Unamortized loss on advance refunding | | (2,404,249) | | (2,976,451) |
| Other liabilities | | 3,981,227 | | 3,172,736 |
| Total Noncurrent Liabilities | | 1,193,802,264 | | 1,233,394,943 |
| **CURRENT LIABILITIES** | | | | |
| Accounts Payable and Accrued Expenses | | | | |
| Accounts Payable | | | | |
| Purchased power and transmission | | 10,493,621 | | 15,253,241 |
| Jointly-owned facilities | | 4,904,897 | | 2,343,189 |
| Other | | 144,809 | | 199,629 |
| Other current liabilities | | 322,978 | | 360,792 |
| Total Accounts Payable and Accrued Expenses | | 15,866,305 | | 18,156,851 |
| Current Liabilities Payable from Restricted Assets | | | | |
| Current maturities of revenue bonds | | 35,285,000 | | 23,675,000 |
| Accounts payable - jointly-owned facilities | | 4,647,527 | | 3,275,660 |
| Interest accrued | | 16,648,814 | | 17,007,273 |
| Total Current Liabilities Payable from Restricted Assets | | 56,581,341 | | 43,957,933 |
| Total Current Liabilities | | 72,447,646 | | 62,114,784 |
| Total Liabilities | | 1,266,249,910 | | 1,295,509,727 |
| **TOTAL NET POSITION AND LIABILITIES** | $ | 1,376,558,316 | $ | 1,390,342,859 |

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, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Sales to participating members | $ 293,252,375 | $ 269,710,862 |
| Sales to others | 9,191,496 | 9,081,678 |
| Other income | 2,038,994 | 1,867,134 |
| Total Operating Revenues | 304,482,865 | 280,659,674 |
| **OPERATING EXPENSES** | | |
| Purchased power and transmission | 141,029,160 | 191,746,253 |
| Prairie State and Trimble County Units No. 1 and 2 | | |
| Fuel | 35,127,223 | 23,540,732 |
| Operations and maintenance | 20,463,752 | 8,331,479 |
| Member Payments | | |
| Fuel reimbursements | 1,423,755 | 2,083,846 |
| Capacity payments | 9,204,193 | 9,334,291 |
| Generation payments | 3,357 | 17,866 |
| Administration and general | 7,084,137 | 7,320,757 |
| Depreciation | 27,081,063 | 7,796,362 |
| Other utility operations | 1,169,848 | 970,795 |
| Total Operating Expenses | 242,586,488 | 251,142,381 |
| Operating Income | 61,896,377 | 29,517,293 |
| **NONOPERATING REVENUE (EXPENSES)** | | |
| Investment income | 2,089,378 | 6,540,210 |
| Capitalized interest | 10,499,357 | 41,883,832 |
| Bond interest subsidy revenue | 9,824,772 | 9,855,675 |
| Interest expense | (68,480,642) | (69,396,491) |
| Amortization expense | (353,852) | (369,048) |
| Other income (expense) | (116) | 14,115 |
| Total Nonoperating Expenses | (46,421,103) | (11,471,707) |
| **CHANGE IN NET POSITION** | 15,475,274 | 18,045,586 |
| NET POSITION - Beginning of Year | 94,833,132 | 76,787,546 |
| **NET POSITION - END OF YEAR** | $ 110,308,406 | $ 94,833,132 |

See accompanying notes to financial statements.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

## STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Received from power sales | $ 289,333,232 | $ 259,032,935 |
| Paid to suppliers for purchased power and transmission | (143,122,119) | (191,055,923) |
| Paid to suppliers and employees for other services | (68,561,814) | (40,373,565) |
| Net Cash Flows from Operating Activities | 77,649,299 | 27,603,447 |
| **CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from line of credit draws | - | 12,000,000 |
| Payment of line of credit debt | (4,500,000) | (1,500,000) |
| Net Cash Flows from Noncapital Financing and Related Activities | (4,500,000) | 10,500,000 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Debt principal paid | (23,675,000) | (8,795,000) |
| Interest paid | (68,912,272) | (70,764,777) |
| Bond interest subsidy received | 9,847,268 | 10,370,694 |
| Acquisition and construction of capital assets | (16,951,953) | (87,247,937) |
| Payment of arbitrage rebate liability | - | (1,224,557) |
| Net Cash Flows From Capital and Related Financing Activities | (99,691,957) | (157,661,577) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investment income | 2,089,380 | 6,540,209 |
| Purchase of long-term investments | (119,833,432) | (121,262,617) |
| Maturity of long-term investments | 129,699,000 | 223,274,000 |
| Net Cash Flows from Investing Activities | 11,954,948 | 108,551,592 |
| **Net Change in Cash and Cash Equivalents** | (14,587,710) | (11,006,538) |
| CASH AND CASH EQUIVALENTS – Beginning of Year | 83,490,089 | 94,496,627 |
| **CASH AND CASH EQUIVALENTS – END OF YEAR** | $ 68,902,379 | $ 83,490,089 |
| **NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Capitalized interest | $ 10,499,357 | $ 41,883,832 |
| Amortization expense | $ (353,852) | $ (369,048) |
| Credits given on billings | $ (10,631,304) | $ (11,436,003) |
| Net gain (loss) on sale of assets | $ (116) | $ 14,115 |
| Bond interest subsidy accrued but not yet received | $ 2,412,267 | $ 2,434,764 |

| | 2013 | 2012 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Operating income | $ 61,896,377 | $ 29,517,293 |
| Noncash items included in operating income | | |
| Depreciation | 27,081,063 | 7,796,362 |
| Other non-cash transactions | 5,094,615 | 2,489,318 |
| Changes in assets and liabilities | | |
| Accounts receivable | (3,192,544) | (9,036,807) |
| Prepayments | (12,559,634) | (954,551) |
| Allowance inventory | (89,768) | (169,455) |
| Accounts payable | (520,812) | (2,038,713) |
| Other current liabilities | (59,998) | - |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | $ 77,649,299 | $ 27,603,447 |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS** | | |
| Restricted investments | $ 141,967,394 | $ 173,261,805 |
| Cash and investments | 42,762,853 | 35,921,789 |
| Short-term investments | 2,768,463 | 2,768,410 |
| Total Cash and Investments | 187,498,710 | 211,952,004 |
| Long-term investments | (118,596,331) | (128,461,915) |
| **TOTAL CASH AND CASH EQUIVALENTS** | $ 68,902,379 | $ 83,490,089 |

See accompanying notes to financial statements.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2013 and 2012

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Illinois Municipal Electric Agency (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, 2013, 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.

IMEA complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). Effective May 1, 2012, IMEA adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements (Statement No. 62)*. Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and reporting literature issued by the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) on or before November 30, 1989, which is not in conflict with or contradicted by GASB pronouncements. This literature includes FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee. Upon implementation of Statement No. 62, IMEA follows guidance issued by GASB, unless a particular topic is not addressed by GASB. In that case, IMEA would follow other accounting literature from the FASB that is considered a lower tier of GAAP than standards promulgated by the GASB.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. IMEA implemented this standard effective May 1, 2012.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2013 and 2012

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

### *ASSETS, LIABILITIES AND NET POSITION*

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.

#### *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.

#### *Allowance Inventory*

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

#### *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.

#### *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.

#### *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.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2013 and 2012

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

### *ASSETS, LIABILITIES AND NET POSITION* (cont.)

#### *Utility Plant* (cont.)

Utility plant of IMEA is recorded at cost or the fair market 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.

#### *Accrued Sick Leave*

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.

#### *Other Liabilities*

Other liabilities represent accrued sick leave, vacation benefits, accrued property taxes payable, an estimate of the accrued IRS arbitrage liability, and asset retirement obligation, (Note 7).

#### *Long-Term Obligations*

Long-term debt and other obligations are reported as liabilities. Bond issuance costs, discounts, premiums and losses on advance refundings are deferred and amortized on a weighted average basis over the repayment period of the related debt.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2013 and 2012

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

### *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.

### *OTHER REVENUES*

Other revenues include revenues from Fairfield under its construction advance from IMEA (Note 9), a management fee paid to IMEA by two state utility associations for co-sharing of staff and facilities.

### *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, 2013 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 May 1, 2012.

### *EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS*

The GASB has approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; and Statement No. 68, *Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27*. Application of these standards may restate portions of these financial statements in future years.

### *RECLASSIFICATIONS*

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

## NOTE 2 – CASH AND INVESTMENTS

IMEA's cash and investments consist of the following:

| | Carrying Value as of April 30 | | Associated Risks |
|---|---|---|---|
| | 2013 | 2012 | |
| Illinois Fund | $ 52,042,729 | $ 33,557,767 | Credit and interest rate risks |
| Mutual funds | 16,239,735 | 49,074,973 | Credit and interest rate risks |
| U.S. treasuries | 2,768,443 | 25,326,143 | Custodial credit and interest rate |
| U.S. agency securities | 116,447,303 | 103,992,621 | Custodial credit, credit, concentration of credit, and interest rate |
| Petty cash | 500 | 500 | Not applicable |
| Totals | $ 187,498,710 | $ 211,952,004 | |

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 quoted market prices. 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 both interest bearing and non interest bearing accounts. 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. At April 30, 2013 and 2012, IMEA had no uninsured and uncollateralized deposits. IMEA's investment policy does not require collateralization of deposits but rather restricts the financial institutions that can be used based on the equity and market ratings of the financial institution's debt.

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

### *CUSTODIAL CREDIT RISK* (cont.)

#### *Investments*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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, 2013 and 2012, 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 policy is to have all investment securities held by its agent in IMEA's name.

### *CREDIT RISK*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of April 30, 2013 and 2012 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 |
| Illinois fund | 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, 2013 and 2012, IMEA's investment portfolio was concentrated as follows:

| Issuer | Investment Type | Percentage of Portfolio | |
|---|---|---|---|
| | | 2013 | 2012 |
| Federal Home Loan Mortgage Corporation | US Agency Securities - Implicitly Guaranteed | 9% | 18% |
| Federal Home Loan Bank Discount | US Agency Securities - Implicitly Guaranteed | 12% | - |
| Federal Home Loan Bank | US Agency Securities - Implicitly Guaranteed | 11% | 15% |
| Federal Farm Credit Banks Funding Corporation | US Agency Securities - Implicitly Guaranteed | 26% | 15% |

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.

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2013 and 2012

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

### *INTEREST RATE RISK*

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

As of April 30, 2013, IMEA's investments were as follows:

| | | Maturity (In Years) | | |
|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 | 1-5 | Over 5 |
| U.S. agency securities | $ 116,447,303 | $ 23,927,273 | $ 36,448,534 | $ 56,071,496 |
| U.S. treasuries | 2,768,443 | 2,768,443 | - | - |
| Totals | $ 119,215,746 | $ 26,695,716 | $ 36,448,534 | $ 56,071,496 |

IMEA also has $16,239,735 invested in a mutual fund and $52,042,729 in the Illinois Fund with underlying investments of U.S. Treasuries and U.S. Agency Securities as of April 30, 2013. The average maturity of the mutual fund is 49 days and the Illinois Fund is 34 days.

As of April 30, 2012, IMEA's investments were as follows:

| | | Maturity (In Years) | | |
|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 | 1-5 | Over 5 |
| U.S. agency securities | $ 103,992,621 | $ 10,918,440 | $ 28,461,955 | $ 64,612,226 |
| U.S. treasuries | 25,326,143 | 25,326,143 | - | - |
| Totals | $ 129,318,764 | $ 36,244,583 | $ 28,461,955 | $ 64,612,226 |

IMEA also had $49,074,973 invested in a mutual fund and $33,557,767 in the Illinois Fund with underlying investments of U.S. Treasuries and U.S. Agency Securities as of April 30, 2012. The average maturity of the mutual fund was 46 days and the Illinois Fund was 36 days.

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

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2013 and 2012

## 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, as tenant in common, in the Trimble County Unit No. 1 generating facility from Louisville Gas and Electric Company. The cost of this interest was approximately $94 million and was financed by the issuance of IMEA's Power Supply System Revenue Refunding Bonds Series 2007C. IMEA's share of the operating costs associated with this facility is included in the accompanying financial statements.

### *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.

## 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 Fund | Trustee | |
| Debt Service Account | | To accumulate principal and interest associated with each bond series. |
| Debt Service Reserve Account | | 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, 2013 and 2012.

| | 2013 | 2012 |
|---|---|---|
| Included in Current Assets: | | |
| Revenue | $ 525 | $ 1,208,592 |
| Operation and maintenance | 20,008,988 | 18,475,818 |
| Renewals and replacements | 2,362,780 | 2,362,779 |
| General reserve | 58,519 | 42,509 |
| Rate stabilization | 23,100,000 | 16,600,000 |
| PNC line of credit | 4 | 1 |
| General cash (not restricted by indenture) | 500 | 500 |
| Total Current Cash and Investments | $ 45,531,316 | $ 38,690,199 |
| Included in Restricted Investment Accounts: | | |
| Acquisition fund | $ 24,709,204 | $ 45,689,347 |
| Debt service | 23,312,281 | 32,754,063 |
| Debt service reserve | 93,945,909 | 94,818,395 |
| Total Restricted Investments | $ 141,967,394 | $ 173,261,805 |

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2013 and 2012

## NOTE 5 – CHANGES IN UTILITY PLANT

A summary of changes in utility plant for 2013 follows:

| | Balance 05/01/12 | Additions/ Reclassifications | Deletions/ Reclassifications | Balance 4/30/13 |
|---|---|---|---|---|
| Utility Plant being depreciated | | | | |
| Electric plant – | | | | |
| Trimble County Unit No. 1 | $ 108,970,092 | $ 1,174,573 | $ (390,585) | $ 109,754,080 |
| Trimble County Unit No. 2 | 167,047,407 | 2,478,592 | (110,244) | 169,415,755 |
| Prairie State Unit No. 1 | - | 350,412,980 | - | 350,412,980 |
| Prairie State Unit No. 2 | - | 321,110,569 | - | 321,110,569 |
| Mobile generation | 3,116,660 | - | - | 3,116,660 |
| Prairie State - Common | - | 146,265,468 | (6,436) | 146,259,032 |
| Prairie State - Jordan Grove | - | 9,911,148 | - | 9,911,148 |
| Prairie State - Nearfield | - | 5,550,125 | - | 5,550,125 |
| Prairie State - Other | - | 7,561,143 | - | 7,561,143 |
| Prairie State - Mine | - | 37,585,278 | - | 37,585,278 |
| Prairie State - Coal Reserves | - | 17,272,491 | - | 17,272,491 |
| Land[1] | 700,430 | 5,265,939 | - | 5,966,369 |
| Office building | 8,135,777 | 3,938 | - | 8,139,715 |
| Office furniture and equipment | 525,270 | 4,216 | - | 529,486 |
| Supervisory control and data acquisition equipment | 2,142,707 | 90,589 | - | 2,233,296 |
| Winnetka 138 interconnect | 500,000 | - | - | 500,000 |
| Other equipment | 570,962 | 73,295 | (33,339) | 610,918 |
| Total Utility Plant in Service | 291,709,305 | 904,760,344 | (540,604) | 1,195,929,045 |
| Construction work in progress[1] | 895,151,811 | 34,683,646 | (913,779,873) | 16,055,584 |
| Total Utility Plant | 1,186,861,116 | 939,443,990 | (914,320,477) | 1,211,984,629 |

# ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2013 and 2012

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

| | Balance 05/01/12 | Additions/ Reclassifications | Deletions/ Reclassifications | Balance 4/30/13 |
|---|---|---|---|---|
| Less: Accumulated depreciation | | | | |
| Electric plant – | | | | |
| Trimble County Unit No. 1 | $ (53,461,827) | $ (2,720,234) | $ 390,585 | $ (55,791,476) |
| Trimble County Unit No. 2 | (5,520,788) | (4,534,026) | 110,244 | (9,944,570) |
| Prairie State Unit No. 1 | - | (8,026,970) | - | (8,026,970 |
| Prairie State Unit No. 2 | - | (4,010,052) | - | (4,010,052 |
| Mobile generation | (1,029,972) | (103,888) | - | (1,133,860) |
| Prairie State - Common | - | (3,248,539) | 6,436 | (3,242,103) |
| Prairie State - Jordan Grove | - | (899,361) | - | (899,361) |
| Prairie State - Nearfield | - | (34,688) | - | (34,688) |
| Prairie State - Other | - | (346,926) | - | (346,926) |
| Prairie State - Mine | - | (2,251,568) | - | (2,251,568) |
| Prairie State - Coal Reserves | - | (414,646) | (85,949) | (500,595) |
| Office building | (1,159,040) | (261,598) | - | (1,420,638) |
| Office furniture and equipment | (417,447) | (53,348) | - | (470,795) |
| Supervisory control and data acquisition equipment | (1,915,541) | (94,057) | - | (2,009,598) |
| Winnetka 138 interconnect | (261,111) | (16,667) | - | (277,778) |
| Other equipment | (402,566) | (64,495) | 22,225 | (444,836) |
| Total Accumulated Depreciation | (64,168,292) | (27,081,063) | 443,541 | (90,805,814) |
| Net Utility Plant | $ 1,122,692,824 | | | $ 1,121,178,815 |

[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, 2013 and 2012

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

A summary of changes in utility plant for 2012 follows:

| | Balance 05/01/11 | Additions/ Reclassifications | Deletions/ Reclassifications | Balance 4/30/12 |
|---|---|---|---|---|
| Utility plant being depreciated | | | | |
| Electric plant – | | | | |
| Trimble County Unit No. 1 | $ 107,325,406 | $ 2,669,556 | $ (1,024,870) | $ 108,970,092 |
| Trimble County Unit No. 2 | 166,236,209 | 896,836 | (85,638) | 167,047,407 |
| Mobile generation | 2,903,604 | 213,056 | - | 3,116,660 |
| Land[1] | 700,430 | - | - | 700,430 |
| Office building | 8,133,529 | 2,248 | - | 8,135,777 |
| Office furniture and equipment | 460,681 | 64,589 | - | 525,270 |
| Supervisory control and data acquisition equipment | 2,059,496 | 83,211 | - | 2,142,707 |
| Winnetka 138 interconnect | 500,000 | - | - | 500,000 |
| Other equipment | 569,503 | 88,737 | (87,278) | 570,962 |
| Total Utility Plant in Service | 288,888,858 | 4,018,233 | (1,197,786) | 291,709,305 |
| Construction work in progress[1] | 779,445,295 | 118,656,282 | (2,949,766) | 895,151,811 |
| Total Utility Plant | 1,068,334,153 | 122,674,515 | (4,147,552) | 1,186,861,116 |
| Less: Accumulated depreciation | | | | |
| Electric plant – | | | | |
| Trimble County Unit No. 1 | (51,799,657) | (2,687,040) | 1,024,870 | (53,461,827) |
| Trimble County Unit No. 2 | (1,117,703) | (4,488,723) | 85,638 | (5,520,788) |
| Mobile generation | (931,350) | (98,622) | - | (1,029,972) |
| Office building | (897,960) | (261,080) | - | (1,159,040) |
| Office furniture and equipment | (327,628) | (89,819) | - | (417,447) |
| Supervisory control and data acquisition equipment | (1,824,709) | (90,832) | - | (1,915,541) |
| Winnetka 138 interconnect | (244,445) | (16,666) | - | (261,111) |
| Other equipment | (414,080) | (63,580) | 75,094 | (402,566) |
| Total Accumulated Depreciation | (57,557,532) | (7,796,362) | 1,185,602 | (64,168,292) |
| Net Utility Plant | $1,010,776,621 | | | $ 1,122,692,824 |

[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, 2013 and 2012

## NOTE 6 – LONG TERM OBLIGATIONS

IMEA has issued the following revenue bonds:

| Date | Purpose | Final Maturity | Interest Rates | Original Issue | Outstanding Amount 4/30/13 |
|---|---|---|---|---|---|
| June 23, 2006 | Capital improvements | Feb. 1, 2035 | 4.250 – 5.000% | $ 139,505,000 | $ 128,545,000 |
| Sept. 6, 2007 | Capital improvements | Feb. 1, 2035 | 4.000 – 5.250% | 575,700,000 | 569,040,000 |
| Sept. 6, 2007 | Capital improvements | Feb. 1, 2015 | 5.340 – 5.460% | 29,660,000 | 23,350,000 |
| Nov. 5, 2007 | Refinance 1998 bonds | Feb. 1, 2021 | 5.000 – 5.250% | 51,360,000 | 34,820,000 |
| Jul. 15, 2009 | Debt service and capitalized interest | Feb. 1, 2016 | 4.000 – 5.000% | 10,040,000 | 10,040,000 |
| Jul. 15, 2009 | Debt service and capital improvements | Feb. 1, 2015 | 4.160 - 4.880% | 16,995,000 | 12,945,000 |
| Jul. 15, 2009 | Debt service and capital improvements * | Feb. 1, 2035 | 5.328 – 6.128% | 294,755,000 | 294,755,000 |
| Nov. 30, 2010 | Debt service and capital improvements * | Feb. 1, 2035 | 2.473 – 7.288% | 140,290,000 | 136,180,000 |

* The 2009C and 2010A revenue bonds are taxable Build America Bonds. IMEA receives a 35% interest subsidy from the federal government for these bonds. In 2013, 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. Preliminary estimates equates to an 8.7% reduction in payments for the federal budget year ended September 30, 2013. 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 |
|---|---|---|---|
| 2014 | $ 35,285,000 | $ 67,717,649 | $ 103,002,649 |
| 2015 | 36,960,000 | 66,016,019 | 102,976,019 |
| 2016 | 41,375,000 | 64,235,859 | 105,610,859 |
| 2017 | 40,575,000 | 62,131,468 | 102,706,468 |
| 2018 | 42,425,000 | 60,017,525 | 102,442,525 |
| 2019-2023 | 232,615,000 | 263,956,778 | 496,571,778 |
| 2024-2028 | 272,955,000 | 194,726,855 | 467,681,855 |
| 2029-2033 | 345,070,000 | 107,530,436 | 452,600,436 |
| 2034-2035 | 162,415,000 | 14,005,599 | 176,420,599 |
| Totals | $ 1,209,675,000 | $ 900,338,188 | $ 2,110,013,188 |

## NOTE 6 – LONG TERM OBLIGATIONS (cont.)

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

***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, 2016. As of April 30, 2013, IMEA had $6 million outstanding under the LOC Agreement.

Long-term obligation activity for the year ended April 30, 2013 is as follows:

| | Balance 5/01/12 | Additions | Reductions | Balance 4/30/13 | Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds | $ 1,233,350,000 | $ - | $ 23,675,000 | $ 1,209,675,000 | $ 35,285,000 |
| Line of credit Agreement | 10,500,000 | - | 4,500,000 | 6,000,000 | - |
| Unamortized premium | 13,023,658 | - | 1,188,372 | 11,835,286 | - |
| Unamortized loss on advance refunding | (2,976,451) | - | (572,202) | (2,404,249) | - |
| Other liabilities | 3,172,736 | 840,135 | 31,644 | 3,981,227 | - |
| Totals | $ 1,257,069,943 | $ 840,135 | $ 28,822,814 | $ 1,229,087,264 | $ 35,285,000 |

Long-term obligation activity for the year ended April 30, 2012 is as follows:

| | Balance 5/01/11 | Additions | Reductions | Balance 4/30/12 | Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds | $ 1,242,145,000 | $ - | $ 8,795,000 | $ 1,233,350,000 | $ 23,675,000 |
| Line of credit Agreement | - | 12,000,000 | 1,500,000 | 10,500,000 | - |
| Unamortized premium | 14,249,779 | - | 1,226,121 | 13,023,658 | - |
| Unamortized loss on advance refunding | (3,599,606) | - | (623,155) | (2,976,451) | - |
| Other liabilities | 4,156,773 | 28,304 | 1,012,341 | 3,172,736 | - |
| Totals | $ 1,256,951,946 | $ 12,028,304 | $ 11,910,307 | $ 1,257,069,943 | $ 23,675,000 |

## NOTE 7 – ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

IMEA adopted FASB Accounting Standards Codification (ASC) 410-20 – *Asset Retirement and Environmental Obligations (ASC 410-20)* due to a lack of GASB guidance on this subject matter. 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.

## NOTE 7 – ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS (cont.)

The scope of ASC 410-20 includes future asset retirement obligation for the closure of an 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 noncurrent liabilities:

| Balance 5/01/12 | Liabilities Incurred | Accretion | Balance 4/30/13 |
|---|---|---|---|
| $ 2,702,189 | $ 695,501 | $ 135,109 | $ 3,532,800 |

| Balance 5/01/11 | Liabilities Incurred | Accretion | Balance 4/30/12 |
|---|---|---|---|
| $ 2,571,034 | $ 76,346 | $ 54,809 | $ 2,702,189 |

## 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 position 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
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### NOTE 8 – NET POSITION (cont.)

The following calculation supports the net investment in capital assets:

| | 2013 | 2012 |
|---|---|---|
| Utility plant in service | $1,195,929,045 | $ 291,709,305 |
| Accumulated depreciation | (90,805,814) | (64,168,292) |
| Construction work in progress | 16,055,584 | 895,151,811 |
| Sub-totals | 1,121,178,815 | 1,122,692,824 |
| Less: Capital Related Debt | | |
| Current portion of capital related long-term debt | 35,285,000 | 23,675,000 |
| Long-term portion of capital related long-term debt | 1,174,390,000 | 1,209,675,000 |
| Unamortized debt issuance costs | (8,768,166) | (9,514,989) |
| Unamortized loss on advance refunding | (2,404,249) | (2,976,451) |
| Unamortized premium | 11,835,286 | 13,023,658 |
| Deferred asset – Fairfield | (8,750,575) | (8,973,775) |
| Sub-totals | 1,201,587,296 | 1,224,908,443 |
| Add: Unspent Debt Proceeds | | |
| Debt service reserve from borrowing | 93,945,909 | 94,818,395 |
| Debt service account | - | 961,306 |
| Debt service account - capitalized interest | - | 17,018,626 |
| Acquisition fund | 24,709,204 | 45,689,347 |
| Sub-totals | 118,655,113 | 158,487,674 |
| Total Net Investment in Capital Assets | $ 38,246,632 | $ 56,272,055 |

The following calculation supports the amount of restricted net position:

| | 2013 | 2012 |
|---|---|---|
| Restricted investments | $ 141,967,394 | $ 173,261,805 |
| Less: Restricted Assets Not Funded by Revenues | | |
| Debt service reserve account | (93,945,909) | (94,818,395) |
| Debt service account | - | (961,306) |
| Debt service account - capitalized interest | - | (17,018,626) |
| Acquisition funds | (24,709,204) | (45,689,347) |
| Total Restricted Net Position Not Funded by Revenues | (118,655,113) | (158,487,674) |
| Current liabilities payable from restricted assets | (21,296,341) | (20,282,933) |
| Total Restricted Net Position as Calculated | $ 2,015,940 | $ (5,508,802) |

Generally accepted accounting principles do not allow negative restricted net position to be reported. Therefore, no restricted net positions are reported if the calculation above results in a negative number.

## NOTE 9 – DEFERRED ASSET

A portion of the proceeds of the Power Supply System Revenue Bonds, Series 2006 were advanced to the City of Fairfield to construct a 138KV transmission line and substation facilities. The City of Fairfield will repay the debt service associated with any advanced bond proceeds through monthly rates paid to IMEA. The balance of this deferred asset as of April 30, 2013 and 2012 was $8,750,575 and $8,973,775, respectively.

Deferred assets also include amounts chargeable to members for settlements of power costs which amounted to $2,888,889 and $5,555,556 for the years ended April 30, 2013 and 2012 respectively.

## 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, 2013, 2012 and 2011 were $707,000, $705,000, and $681,000, respectively. Total covered payroll for the respective years was $2,828,000, $2,822,000, and $2,722,000.

## 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

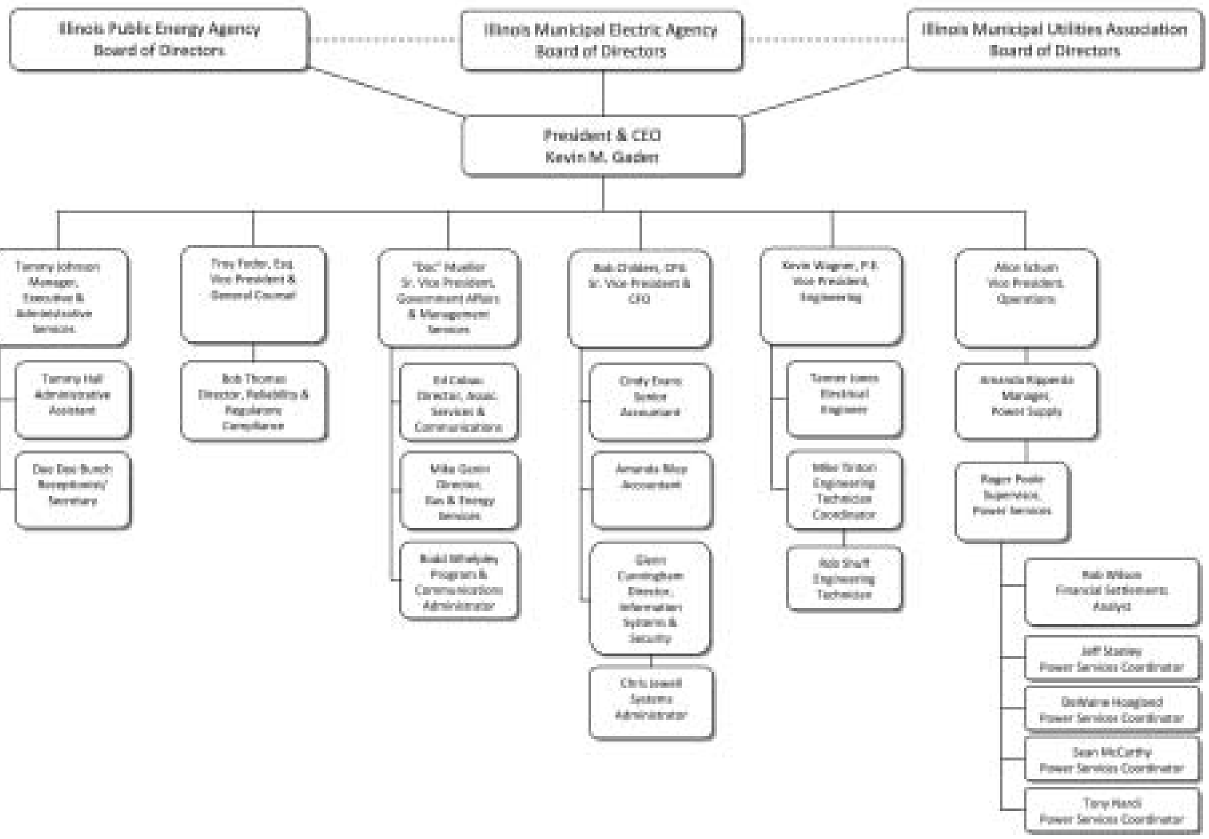
IMEA has two significant customers, who were responsible for 50% and 49% of operating revenue 2013 and 2012, respectively.

## 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.

# The IMEA TEAM

## Organizational Chart





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