Illinois Municipal Electric Agency Annual Report 2016

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

The Illinois Municipal Electric Agency is a special purpose local government founded more than 30 years ago by its member municipalities. Our job – very broadly stated – is to help our member municipalities with their obligation to serve their electric loads.

> ***"We believe the difference is service ... IMEA formed this joint action agency to provide electric services that transcend those that any single municipality, acting alone, could accomplish."***

We should take a look at that phrase: "obligation to serve." In the case of IMEA, there are 32 cities and one cooperative electric system that have (literally) elected to take responsibility for providing the families in their community with reliable, price-stable electricity. Some have been doing so for more than 100 years, and there's no end in sight. Not one IMEA member community has seriously considered giving up the enterprise and turning over its system to one of the investor-owned utilities that operate in Illinois. Why?

Well, we'd opine that the word "serve" has a lot to do with it. As much as we hate to admit it, those electrons that the Agency procures and delivers to the city gates of each of the member municipalities are identical to those flowing in other systems, and one Watt's worth of power measures the same inside an IMEA town as it does outside the city. But we believe the difference is service. The people and businesses in IMEA member communities receive their electric service from a system that is overseen by their locally elected officials. When there is a new hook-up, a restoration, a system improvement to be made, it's city workers who perform the task. Residents often walk their utility payments into city hall. There are no shareholders demanding profit. There are, however, citizens expecting to be treated like the friends and neighbors that they are, trusting that their city or village electric enterprise is being well managed for the benefit of all.

In that vein, the cities that comprise the IMEA formed this joint action agency to provide electric services that transcend those that any single municipality, acting alone, could accomplish. In the Agency's early years, this meant leveraging the aggregated buying power of the members to achieve lower costs for wholesale power contracts. Eventually, the Agency's board chose to purchase ownership shares in generation resources as a further hedge against market price volatility.

The Agency could have stopped there. In fact, there are joint action agencies that have no dedicated staff. They are simply a collectivized agreement among their member cities – owners' or buyers' clubs if you will, whose boards of directors meet to decide purchasing and ownership policies and maybe contract to third parties whatever operations work needs to be accomplished. But that's not the environment in which IMEA's member municipalities operate.

IMEA member electric systems are second to none in their commitment to provide quality, reliable service to their customers. As those cities' joint action agency, IMEA must also strive to do no less.

The pages that follow focus on a discussion of three services the Agency provides for its member electric systems:

- Managing financial and operational opportunities and challenges in the power markets
- Legislative advocacy
- Providing value added services, such as association management and electric efficiency programs.

Those are just some examples. We could have just as easily discussed IMEA's role in providing finance, engineering, operations, legal, compliance and economic development support and services to our member communities.

At IMEA, we're rightly proud of the service we deliver to our member municipalities. Yes, we feel that providing value added service is part of our obligation.

It is also our pleasure.

Kevin M. Gaden
President & CEO

Greg Hazel
Chairman of the Board

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 in 1984, 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, long-term, cost-based power supply contracts, shorter term contracts and purchases from the market when that is an economical option. IMEA also uses the power plants owned and operated by members to meet the memberships' needs from time to time.

IMEA backs its commitment to power supply excellence with a 24-hours-a-day, seven days-a-week Operations Center staffed by highly skilled power supply professionals. In addition, IMEA provides financial, 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.

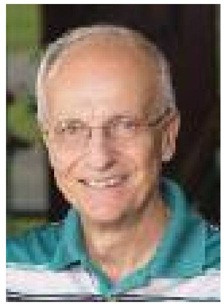
IMEA Members

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	

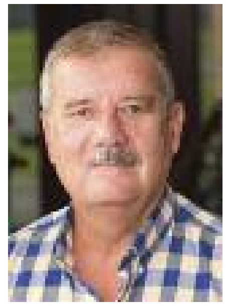
★ Rural Electric Convenience Cooperative (RECC) – Non-voting power purchaser

Executive Board

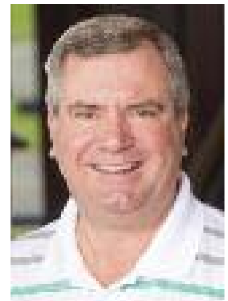
Chairman
Greg Hazel
Rantoul



Vice Chairman
Mark Curran
Naperville



Secretary/
Treasurer
Bob Coble
Flora

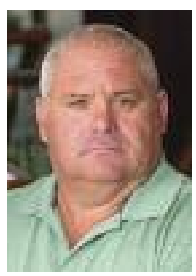


Immediate
Past Chairman
Rick Abell
Metropolis

Members at Large

John Hodapp
Carlyle

Mayor
Scott Harl
Peru

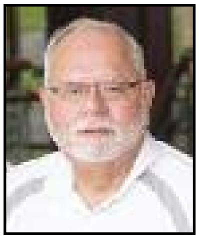


Dick
Simon
Rock Falls

Tom
Bruhl
St. Charles

Tim
Birk
Waterloo

Board of Directors



Larry Taylor
Altamont

Shannon Risley
Bethany

Dale Detmer
Breese

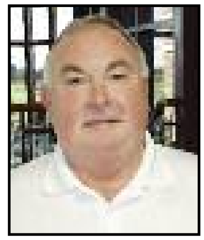
Justin Griffith
Bushnell

Karl Klein
Cairo

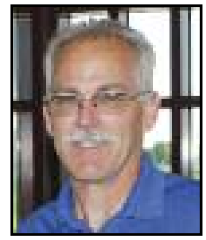
David Coston
Carmi

Shelby Biggs
Casey

Shane Hill
Chatham



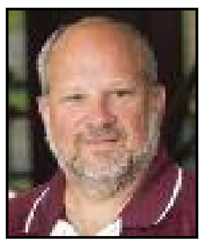
Mayor Charles Griswold, Jr.
Fairfield



Larry Woliung
Farmer City

John Tolan
Freeburg

Mike Ryder
Greenup

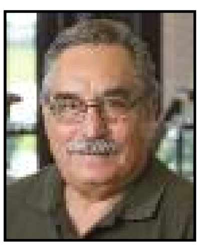


Dan Cook
Highland

Pat Barry
Ladd

Cory Sheehy
Marshall

Cody Hawkins
Mascoutah

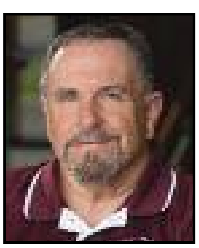


Dominic Rivara
Oglesby

Jeff Mangrich
Princeton

Josh Eckart
Red Bud

Russ Patrick
Riverton



Mayor Tom Martin
Roodhouse

Mayor Ann Short
Sullivan

Brian Keys
Winnetka

David Stuva
RECC

Ten Year Comparative Summary of Operations

FOR THE YEARS ENDED APRIL 30,	2016	2015	2014	2013
Operating Revenues:				
Electric Sales to Participating Members	$305,397,433	$297,920,665	$313,329,416	$293,252,375
Electric Sales to Others	9,250,649	9,487,955	10,202,123	9,191,496
Member Assessments	0	0	0	0
Other	3,433,172	4,906,065	3,570,481	2,038,994
Total Operating Revenues	318,081,254	312,314,685	327,102,020	304,482,865
Operating Expenses:				
Purchased Power	92,863,982	93,821,555	112,229,955	121,189,265
Transmission	21,906,341	13,114,019	14,902,996	19,839,895
Prairie State and Trimble County Unit #1 and 2:				
Fuel	41,685,758	43,282,351	37,198,450	35,127,223
Operations and Maintenance	36,285,399	36,338,400	32,417,374	20,463,752
Member Payments:				
Fuel Reimbursements	823,604	1,119,275	1,431,522	1,423,755
Capacity Payments	9,183,749	9,202,280	9,163,470	9,204,193
Generation Payments	2,728	2,774	6,056	3,357
Administrative and General	7,313,294	7,456,187	8,232,434	7,084,137
Depreciation	34,320,066	33,126,911	32,659,266	27,081,063
Other Utility Operations	1,927,742	1,429,914	1,880,493	1,169,848
Total Operating Expenses	246,312,663	238,893,666	250,122,016	242,586,488
Net Operating Income	71,768,591	73,421,019	76,980,004	61,896,377
Other Expenses - Net	(45,730,938)	(53,399,018)	(59,430,472)	(46,421,103)
Net Income Before Special Item	$26,037,653	$20,022,001	$17,549,532	$15,475,274
Special Item	$0	$0	$0	$0
Change in Net Position	$26,037,653	$20,022,001	$17,549,532	$15,475,274
Peak Demand (Non-Coincident kW)	939,653	942,161	1,005,629	1,084,464
Kilowatt-Hour Sales to Participating Members(kWh)	3,938,284,055	3,974,872,808	4,102,836,932	4,135,520,775
Kilowatt-Hour Sales to Others(kWh)	110,822,027	120,211,294	123,499,732	115,139,111
Cost per kWh to Participating Members (Cents/kWh)	7.75	7.50	7.64	7.09
Cost per kWh to Participating Members after Capacity Payments (Cents/kWh)	7.52	7.26	7.41	6.87
Debt Service Coverage after Rate Stabilization Transfer	113%	110%	110%	113%
Principal Paid on Revenue Bonds	$41,375,000	$36,960,000	$35,285,000	$23,675,000
Revenue Bonds Outstanding	$1,045,885,000	$1,087,260,000	$1,174,390,000	$1,209,675,000
Net Position	$173,917,592	$147,879,939	$127,857,938	$110,308,406

2012	2011	2010	2009	2008	2007
$269,710,862	$166,474,951	$148,999,323	$146,290,958	$140,222,832	$101,362,681
9,081,678	9,079,342	8,876,865	2,630,952	3,284	0
0	8,333	10,000	10,000	10,000	28,500
1,867,134	1,272,067	1,521,276	1,221,779	1,155,131	369,710
280,659,674	176,834,693	159,407,464	150,153,689	141,391,247	101,760,891
167,998,413	99,499,201	105,434,390	95,326,413	92,125,794	54,127,374
23,747,840	14,924,800	14,049,221	11,590,389	10,277,107	6,657,441
23,540,732	14,152,031	7,838,048	11,099,921	7,498,448	7,892,265
8,331,479	5,786,808	5,859,538	4,532,103	4,226,640	3,511,622
2,083,846	1,236,692	995,589	1,866,252	1,507,892	2,358,657
9,334,291	9,309,573	9,281,664	9,263,030	9,527,462	10,159,631
17,866	5,799	2,997	4,719	15,297	32,547
7,320,757	6,781,113	6,114,056	5,774,665	5,112,890	4,474,511
7,796,362	4,454,531	3,291,971	3,433,667	3,245,737	3,129,115
970,795	869,565	1,107,938	633,090	613,600	598,955
251,142,381	157,020,113	153,975,412	143,524,249	134,150,867	92,942,118
29,517,293	19,814,580	5,432,052	6,629,440	7,240,380	8,818,773
(11,471,707)	(5,667,893)	(3,580,580)	(3,243,851)	(2,546,837)	(1,912,322)
$18,045,586	$14,146,687	$1,851,472	$3,385,589	$4,693,543	$6,906,451
$0	($1,179,024)	$0	$0	$0	$0
$18,045,586	$12,967,663	$1,851,472	$3,385,589	$4,693,543	$6,906,451
1,063,494	649,186	608,019	615,849	626,716	511,245
3,910,906,019	2,591,542,077	2,415,241,184	2,525,506,187	2,661,927,664	2,087,270,895
112,278,126	117,881,804	121,424,791	38,254,057	0	0
6.90	6.42	6.17	5.79	5.27	4.86
6.66	6.06	5.78	5.43	4.91	4.37
119%	113%	148%	138%	139%	168%
$8,795,000	$8,710,000	$3,665,000	$3,485,000	$3,365,000	$2,985,000
$1,233,350,000	$1,242,145,000	$1,110,565,000	$792,440,000	$795,925,000	$196,650,000
$94,833,132	$76,787,546	$63,819,883	$61,968,411	$58,582,822	$53,889,279

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 and short-term purchase power agreements.

IMEA backs its commitment to power supply excellence …

with a 24-hours-a-day, seven days-a-week Operations Center staffed by highly skilled power supply professionals. In addition, IMEA provides financial, 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.

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.

IMEA – Service is the Key

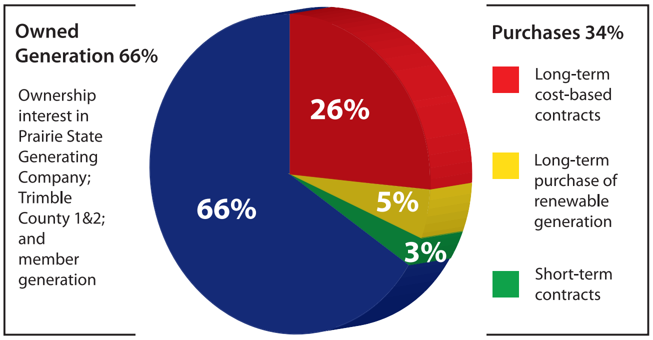
The IMEA is a joint action agency formed in 1984 by its member municipalities in accordance with the provisions of the Illinois Municipal Code. Agency membership is comprised of 32 municipalities. IMEA also serves one rural electric cooperative.

Providing Power

IMEA's job is to produce or secure power for its members and provide for that power to be delivered to the city gates.

The Agency fulfills this part of its mission through long-term and short-term power services contracts and through ownership shares of generation facilities – most notably a 15.17 percent ownership share in the Prairie State Generating Company in Marissa, Illinois, which represents more than 240 megawatts of capacity, and a 12.12 percent ownership share in Trimble County Units 1 and 2 in northern Kentucky, which represents more than 150 megawatts of capacity. For fiscal year 2015-16, 66 percent of IMEA's power supply requirements were met by IMEA-owned or member-owned generation resources. The remainder came from long-term, cost-based contracts; long-term purchases of renewable generation; and short-term contracts. Altogether, this power supply mix means that 92% of the energy the Agency supplies to its members comes from cost-based sources (e.g., those owned or under a long-term, cost-based contract).

IMEA 2016 Portfolio of Generated and Purchased Power Supply



IMEA has a 15.17 percent ownership share of the Prairie State Generating Company in Marissa, Illinois.

IMEA is, however, much more than a purchasing and holding agent for its municipal members. As you will read in this report, through numerous services, including engineering, legal, education, electric efficiency, regulatory compliance and economic development assistance, it provides the expertise few individual systems have at their disposal. IMEA, more than any single system, has the wherewithal to analyze opportunities and assign human and economic resources to mitigate risks and work to effect changes in this complicated and ever-changing industry. For examples of the key services the Agency provides to all members, we'll focus on the following key areas:

- Managing Opportunities and Issues in the Power Markets
- Legislative Advocacy
- Providing Value-Added Services

Managing Opportunities and Issues in the Power Markets

As an outgrowth of the federal Energy Policy Act of 1992, which allowed more entities access to transmission lines, came the formation of a number of regional organizations called Independent Systems Operators (ISOs), whose mission is to operate regional transmission networks independently of various transmission line owners, thereby ensuring non-discriminatory access to the system and, theoretically, simplifying the regional transmission rate structure.

The MISO and PJM Markets

IMEA and its member municipalities are obligated to serve loads that are physically located in two ISOs – the Midcontinent Independent System Operator (MISO), whose territory includes most of southern Illinois, and the Pennsylvania-New Jersey-Maryland Interconnection (known as PJM), which includes territory around the Chicagoland area, including the IMEA member communities of Naperville, Rock Falls, St. Charles and Winnetka. Thus, IMEA must be active in two energy markets: one in which most of its members are located (MISO) and another in which more than half of its load resides (PJM). Indeed, three years ago, the Agency hired a manager of energy markets to help coordinate market planning and assist IMEA's Legal Counsel, operational personnel, and outside consultants and attorneys to discover opportunities in the market and help shield the Agency and its members from unwarranted market and regulatory risks.

Energy and Capacity Markets

"IMEA, more than any single system, has the wherewithal to analyze opportunities and assign human and economic resources to mitigate risks and work to effect changes in this complicated and ever-changing industry."

As background, the overall price of electricity is comprised of various costs, including transmission (the cost of moving electricity on the wires), the cost of the electricity itself and the capacity cost.

Capacity is the capability of a physical generation facility that produces energy. For example, IMEA's share of Prairie State is equal to 15.17 percent of the generator's total capacity or 240 megawatts. Thus, IMEA has 240 megawatts of capacity from Prairie State that it must put into the market. However, since IMEA is responsible for serving the needs of its members, it must also buy sufficient capacity from the energy capacity markets. Capacity is usually procured in an amount that meets the highest projected demand plus reserves for the year. (That highest projected demand usually occurs on the hottest day of the year.) In that way, the Agency (and the market) assures a steady supply of capacity for its members.

In theory, IMEA should be able to put capacity it owns and/or produces into the market at a specific price and take it out at that same price. Thus, owned capacity should act as a long-term hedge against the overall price of electricity.

In actual practice, two major issues are currently causing the capacity markets to operate in such a manner that disadvantages IMEA and certain other municipal and cooperatively owned electric agencies. The first has to do with the capacity prices as determined in the MISO and PJM markets. The second has to do with transfer rights between the MISO and PJM markets.

"Ninety-two percent of the energy the Agency supplies to its members comes from cost-based sources."

The IMEA Operations Department monitors pricing nodes and usage at IMEA member electric systems 24-hours a day.

Uneven Playing Field in the Capacity Market

The MISO and PJM markets are auction based. Energy is bought and sold at prices that fluctuate every hour or every five minutes depending on the market. Capacity is procured on an annual basis in auctions that are held two months in advance in the MISO market and three years in advance in the PJM market. Capacity auctions work in a manner whereby the very lowest bid is accepted first to fulfill the number of megawatts that the bidder offered into the market. Then each next lowest bid is accepted until the number of megawatts required from all market participants are procured. The price of the last megawatt to clear the market (the "highest lowest price") is then the price that all successful bidders are paid.

In theory, the market rewards the most efficient producers, because they can bid into the market at lower prices and still recover their costs. However, seemingly unrecognized (and unmitigated) is the fact that all market participants do not operate from the same set of regulatory rules.

Illinois is a deregulated state, which means that electric generation companies in the state are not guaranteed a set rate of return that is built into the rates that end-use customers pay for electricity. In Illinois, the only income that generation companies receive is from participation in the energy and capacity markets. But most participants in MISO are in states whose public utilities commission guarantees a rate of return for electricity producers (who are permitted to charge end-use customers based on their cost of production). With their operating costs largely already covered by these state-guaranteed rates of return, producers with excess capacity can afford to bid into the MISO auction at a lower price. Their price almost always clears the auction and has the effect of lowering all the other prices, sometimes leaving Illinois generators short of the revenue necessary to recover their costs.

Market Impediments to Transferring Electricity from the Generator to the Load

The challenges of owning generation in one market (MISO) and serving load in another (PJM) have been increased of late largely due to unforeseen conditions, such as price separations in the market and also seemingly capricious rule changes instituted by the markets themselves.

Before taking an ownership share of Prairie State (located in the MISO market), IMEA verified that, as an entity with a history and an obligation to serve cities located in the PJM market, it had a firm transmission path between MISO and PJM that was approved by both PJM and MISO.

However, PJM and the Federal Energy Regulatory Commission (FERC) changed the way they recognized the Agency's firm transmission path in 2014. In 2014, the Agency received a one-year waiver for the 2017-18 PJM delivery year, which allowed it to continue serving its load in PJM with generation resources in MISO as it had in the past. But in 2015, the FERC declined to extend that waiver beyond one year. IMEA then worked with PJM and MISO to effect a pseudo tie – which is a way of virtually making the output of Prairie State become a PJM-based generation asset that can be called upon by the PJM market operations staff itself.

" IMEA will continue to explore every avenue available to effect improvements to the existing – and also any future – rules, laws and tariffs under which the market operates. This task, though often daunting, is one way that membership in a robust joint action agency benefits its member municipalities."

But even this solution comes with an economics issue. The PJM member municipalities that IMEA is obligated to serve are all located in the Chicagoland area of the PJM market (commonly known as the ComEd zone, after the investor-owned utility that serves much of the area). IMEA's physical pathway to the PJM market pours into the ComEd zone. The ComEd zone has become (due to demand and congestion issues) one of the most expensive of all the PJM market zones. The import rules say that the capacity that IMEA puts into the PJM market is compensated at the (lower) average market price of all the PJM market zones. But to serve the IMEA loads in the ComEd territory, the Agency must purchase capacity at the higher ComEd zone price. Thus, market rules are interfering with the Agency's ability to effectively self-serve its load by requiring it to import and get paid for the capacity at a lower price and purchase the capacity back at a higher cost.

IMEA – A Force for Public Power in the Marketplace

To reach mutually agreeable solutions to these complex problems, IMEA has had several meetings with MISO staff, PJM staff, and the PJM independent market monitor. IMEA staff, the American Public Power Association, and others have represented the interests of member municipalities and other public-sector entities during policymaking sessions of PJM and MISO. The Agency has offered alternative economic and engineering modeling to challenge the market modelers' assumptions and work to correct inequities in the marketplace. IMEA will continue to explore every avenue available to effect improvements to the existing – and also any future – rules, laws and tariffs under which the market operates. This task, though often daunting, is one way that membership in a robust joint action agency benefits its member municipalities.

Legislative Advocacy

While regulatory and operational matters associated with the Agency's operations in the ISOs has consumed a great amount of time in the past year, legislative advocacy on both the state and federal level has also been a major focus. Issues of concern include the U.S. Environmental Protection Agency's Clean Power Plan (CPP), with its goal of reducing carbon dioxide emissions in the nation, as well as a series of bills and proposals within the Illinois General Assembly that would remake the state's energy industry in a variety of ways.

As to the Clean Power Plan, Agency staff has spent a great deal of time in discussions with representatives of the Illinois EPA to determine the general components of a compliance program for the regulation as it currently exists. This, despite the fact that the CPP is currently stayed from implementation and will be in the courts until an eventual decision on its constitutionality by the Supreme Court. Still, some of what is known about the CPP was used as part of a strategic review that Agency staff prepared for the members in the spring of 2016.

The many unknowns associated with the actual implementation of the CPP make predicting specific outcomes difficult. In general, it appears that the Agency's ability to comply with the rules of the plan at the lowest cost depends on a number of both internal and external factors. Those external factors are, in many ways, beyond direct Agency control. Not the least of these is the number of fossil-fuel fired power plants in Illinois that will retire between now and the early implementation date of the CPP.

It seems likely that a primary means of compliance for fossil fuel plants, such as those in which the Agency holds ownership, will be through the purchase of carbon-free energy from the market or from counterparties or through the purchase of carbon allowances. An allowance equates to permission to emit a specific amount of carbon dioxide.

Additional plant retirements will reduce carbon dioxide emissions in the state and should make compliance on the remaining plants easier, because the allowances fossil-fired plants will need to operate should be more plentiful.

Another key question is whether allowances will be tradable across state lines. This depends on the manner individual states choose to comply with the rule. If allowances are widely available across state lines, that fact should also act as a means to reduce the cost of allowances.

Beyond the CPP, there are a series of federal legislative proposals and concerns that run the gamut of utility issues.

As we approach the beginning of a new Congress, it is almost certain that there will be tax reform measures under consideration. Some proposals, as has happened in the recent past, may attempt to limit or eliminate a unit of local government's ability to use tax-exempt finance. This is an issue that will require additional attention from all municipalities in the coming year.

Also, the current Congress (in both chambers) continues to work on a comprehensive energy package with bills in both houses that contain a number of provisions of interest to municipal systems. These include:

- Hydropower – We support the hydropower language in both bills that would reform the current licensing and relicensing process to enable further development of this important renewable source of emissions-free generation.
- Reliability – We support language in both bills to give the Federal Energy Regulatory Commission (FERC) a formal role in reviewing major federal regulations that could impact grid reliability.
- Pipeline permitting – We support the provisions in both bills to streamline the interstate natural gas pipeline permitting process by requiring concurrent reviews by federal agencies.
- Energy efficiency – We support the provisions in both bills to promote energy efficiency, particularly the language to repeal Section 433 of the Energy Independence & Security Act that prohibits the federal government from using energy generated from fossil fuels by 2030.
- RTO markets – We support a balanced inquiry proposed by the Senate into whether RTO mandatory capacity markets ensure reliability while allowing for resource diversity and the ability of utilities to self-supply their capacity needs. A related House provision would pressure RTOs to adopt costly performance mechanism requirements that would limit the types of resources that could clear in capacity markets.

Along with our federal oversight, there are a number of pieces of legislation at the Illinois General Assembly that could have long standing implications for the Agency and its members. In many ways they are inextricably connected to the eventual impact of the CPP, as well as the issues the Agency is currently working on with the ISOs.

"In all matters before the General Assembly, the Agency's staff will vigorously protect the rights and privileges that municipal systems in the state hold under existing law and work to ensure any statutory changes do not unnecessarily affect their ability to serve their customers."

Through the Illinois Municipal Utilities Association, and in coordination with the American Public Power Association and the American Public Gas Association, IMEA works to preserve and enhance the privileges public utilities hold by state and federal statute.

Exelon, along with its subsidiary ComEd, have floated a number of legislative proposals intended to provide extra revenue for their nuclear generation facilities and distribution system operations. Threats to close some of its nuclear generation facilities have been circulating for years. The primary means for the new revenue would be the creation of a type of carbon-free energy certificate that the state would require to be purchased, perhaps as part of a rehabbed renewable portfolio standard (RPS) in Illinois. Changes in the RPS are something that various environmental interests also want, and Exelon has been seeking a compromise that would put these groups in support of its proposal. Meanwhile, ComEd would like legislative authority to change the way it bills its customers by moving to a demand rate rather than a flat cost-per-kilowatt-hour rate for all its customers, including residential.

Dynegy is also interested in legislation that would provide extra revenue for its downstate coal-fired plants. Dynegy has long criticized the lack of certainty and low revenues provided by the MISO capacity auctions and this year announced a number of plant shutdowns, which are characterized in most cases as "mothballings." Over the next few years, the company would then decide if the shutdowns would be temporary or permanent. Dynegy has dual proposals that would require all of Ameren's transmission facilities to be transferred from MISO into PJM (where capacity revenues paid to generation facilities are currently higher) and in the interim to provide a transitional revenue stream, not unlike the Exelon certificate proposal, to keep its plants functioning.

Needless to say, these are all sweeping changes that have met resistance from a number of entities. Adding in the uncertainties attached to the CPP and the complications that the state's ongoing budget crisis has created for the legislative process, little action is expected until the spring session of 2017. While the Agency is generally supportive of actions that would provide a higher level of capacity revenue over a longer period of time, the fine details of any proposal will need to be weighed before any decision on the merits of a particular plan. As in all matters before the General Assembly, the Agency's staff will vigorously protect the rights and privileges that municipal systems in the state hold under existing law and work to ensure any statutory changes do not unnecessarily affect their ability to serve their customers as they have for the last one hundred years.

Value-Added Services

In service to its member systems, IMEA takes on responsibilities or provides services that may be beyond the scope of any one of its member municipal systems. The result is more effective education and training opportunities, outreach to key customers or assistance to help cities manage utilities, including their water or natural gas systems.

Agency and Association Management Services Result in Education and Training Opportunities

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).

The IPEA

The IPEA, which was formed in 2005, is a wholesaler of natural gas to 12 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 eleven years of operation, become one of the leading natural gas joint action agencies in the Midwest. Through a management contract, IMEA staff assist IPEA member natural gas systems by: helping to coordinate their nominating and hedging strategies; reconciling billings and true-ups with their wholesale gas provider; and assisting with public outreach to their customers.

The IMUA

Formed in 1948, the IMUA is a statewide trade association that provides a wide variety of services to its 57 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 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.

IMUA Trainer Denny Swan provides CPR instruction to a group of linemen.

Linemen from many IMEA member utilities rely on the training they receive from the Illinois Municipal Utilities Association to help them keep themselves and their coworkers safe when they repair or install equipment out in the field.

In the last year, the Association has provided:

- Illinois Department of Labor required training for lineman and other utility personnel. Training topics included arc flash protection, lock out/tag out, fire extinguisher safety, hazardous communications, personal protective equipment, respiratory protection, confined space entry and rescue, and worksite traffic control, among others.
- Periodic legislative bulletins that alerted managers and other personnel at public utilities to the current status of state and federal measures that could positively impact or adversely affect their operations. The IMUA works closely with the American Public Power Association and the American Public Gas Association to provide information and advice to state and federal lawmakers.
- Sample municipal ordinances on such topics as budgeting, net metering and interconnection policies that member municipalities can modify and put in place as needed.
- Special conferences and seminars on such topics as OSHA compliance, distributed generation, and diesel generator operation and maintenance.
- Twelve editions of *The Safety Sentinel*, a monthly publication intended to be used by member utility systems as content for bill stuffers, newsletters or Web pages. Each issue provides safety warnings or energy efficiency tips that utilities can pass on to their residential customers with little or no municipal staff resources involved.

"IMEA takes on responsibilities or provides services that may be beyond the scope of any one of its member municipal systems. The result is more effective education and training opportunities, outreach to key customers or assistance to help cities manage their utilities."

Electric Efficiency Program

The Agency's Electric Efficiency Program began in 2009, providing funds to go toward the purchase and installation of energy efficient technologies for IMEA members and their commercial and industrial electric customers. In early 2016, the IMEA hired a consulting firm to evaluate its program and assist with a restructuring effort to align program incentive rates, allowable measures and energy savings calculations with prescriptions found in the *Illinois Statewide Technical Reference Manual for Energy Efficiency,* commonly known as the *TRM*. The state's investor-owned utilities, which are mandated by state law to offer electric efficiency programs to customers (and also finance them through line-item charges on customer bills), are required to run their programs in accordance with *TRM* guidelines. IMEA, with its voluntary, self-financed program, is under no such requirement. However, the Agency is transforming its program in anticipation of the potential implementation of the federal Clean Power Plan. Depending on how the state chooses to comply with the federal mandate (should it come to pass), qualified energy efficiency programs will very likely be granted allowances that can be used by – or sold to – generators in order to offset their carbon emissions. To qualify for these allowances, electric efficiency programs will likely need to submit to state oversight or third-party verification, and the *TRM* is the most likely yardstick that would be used to evaluate a program's proper operation.

As of August 2016, 330 electric 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 45 million kWh annually. Rebates to customers have totaled in excess of $5.3 million.

In August 2011, IMEA began what has become a six-year, $600,000 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 $50 prepaid card for doing so. From August 2011 through August 2016, residents in IMEA member communities recycled 1,600 refrigerators and freezers, realizing an estimated annual energy savings of more than 1.4 million kWh annually. ■

Summary of IMEA Sales to Members
Fiscal Year Ending April 30, 2016

Participating Members	Non-Coincident Peak Demand (kW)	Energy Usage (kWh)	Population
Altamont	6,219	24,088,504	2,308
Bethany	2,437	8,723,206	1,322
Breese	13,011	53,662,452	4,506
Bushnell	8,180	35,926,654	2,976
Cairo	12,206	72,723,999	2,467
Carlyle	9,276	37,533,819	3,224
Carmi	14,429	56,761,878	5,119
Casey	7,349	30,101,938	2,709
Chatham	23,894	80,498,824	12,351
Fairfield	17,289	70,321,149	5,040
Farmer City	4,622	20,456,802	2,004
Flora	26,206	126,197,930	4,944
Freeburg	11,084	42,203,527	4,241
Greenup	4,211	17,246,695	1,495
Highland	33,527	134,292,848	9,848
Ladd	2,866	13,216,608	1,241
Marshall	13,608	66,177,756	3,880
Mascoutah	15,954	56,911,796	7,975
Metropolis	20,242	82,599,827	6,334
Naperville	328,597	1,407,022,970	147,100
Oglesby	9,161	36,272,407	3,647
Peru	50,016	233,161,767	9,952
Princeton	23,220	104,643,400	7,594
Rantoul	32,464	161,477,549	13,008
Red Bud	12,160	49,397,457	3,586
Riverton	6,569	23,499,987	3,462
Rock Falls	18,426	64,471,270	9,087
Roodhouse	3,051	11,436,172	1,730
St. Charles	113,798	532,914,092	33,460
Sullivan	14,965	70,482,008	4,494
Waterloo	23,329	88,927,178	10,236
Winnetka	32,758	124,931,586	12,472
Total Full Requirements Sales to Participating Members	915,124	3,938,284,055	
Sales to RECC	24,529	110,822,027	
Total Sales	939,653	4,049,106,082	

ILLINOIS MUNICIPAL ELECTRIC AGENCY

Springfield, Illinois

FINANCIAL STATEMENTS

Including Independent Auditor's Report

As of and for the Years Ended April 30, 2016 and 2015

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BAKER TILLY

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

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, 2016 and 2015, 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, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Illinois Municipal Electric Agency

Other Matter

Required Supplementary Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
July 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2016 and 2015

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, 2016 and 2015. 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 principals generally accepted in the United States of America. IMEA uses the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

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

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, 2016 and 2015

IMEA FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Statements of Net Position

	2016	2015	2014
Utility plant	$1,069,961,113	$1,081,957,424	$1,100,097,664
Restricted assets	104,508,640	105,604,914	126,912,166
Current assets	158,135,713	121,816,491	114,957,833
Other assets	6,179,768	6,931,831	19,262,007
Deferred outflows of resources	40,415,512	44,266,182	1,885,545
Total Assets and Deferred Outflows of Resources	$1,379,200,746	$1,360,576,842	$1,363,115,215
Net Position:			
Invested in capital assets	$72,267,542	$46,944,830	$29,022,108
Restricted	7,383,227	7,274,396	6,319,758
Unrestricted	94,266,823	93,660,713	92,516,072
Total Net Position	173,917,592	147,879,939	127,857,938
Noncurrent liabilities	1,109,476,957	1,143,096,170	1,164,790,798
Current liabilities	95,806,197	69,600,733	70,466,479
Total Liabilities	1,205,283,154	1,212,696,903	1,235,257,277
Total Net Position and Liabilities	$1,379,200,746	$1,360,576,842	$1,363,115,215

STATEMENTS OF NET POSITION

Year Ended April 30, 2016

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

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

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2016 and 2015

IMEA FINANCIAL ANALYSIS (cont.)

STATEMENTS OF NET POSITION (cont.)

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

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

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

Year Ended April 30, 2015

IMEA's total utility plant decreased by $18,140,240 during the year ended April 30, 2015. The Agency made total payments of $15,987,356 toward the capital improvements associated with the Prairie State project, Trimble County Units 1 & 2 projects and other smaller capital acquisitions and improvements. Total current liabilities associated with these capital improvements were $1,452,360 which is reflected in current liabilities. These capital investments net of depreciation accounted for a majority of the changes in utility plant. Depreciation expense of $33,126,911 was recorded during the year.

IMEA increased the cash and short-term investments held in operating reserve accounts by $7,883,819 from the previous year. This change represents the majority of the increase in current assets during the year.

Proceeds of revenue bonds not yet expended are included in restricted assets. The decrease in restricted assets of $21,307,252 was primarily caused by payments being made toward capital investments as well as a decrease in IMEA's debt service reserve requirement as a result of IMEA's refinancing of a portion of the Series 2006 and 2007A Power Supply System Revenue Bonds. This refinancing also caused other assets to decrease by $12,330,176 and the deferred outflows of resources to increase by $42,380,637.

Net position increased due to current year operations that resulted in net income of $20,022,001.

As a result of the refinancing mentioned above, IMEA was able to decrease the total revenue bonds outstanding by $50,170,000. Principal repayments associated with the Agency's outstanding revenue bonds also totaled $36,960,000. The Agency also made a net payment of $1,250,000 against a line of credit facility available to IMEA bringing the total outstanding draws on the line of credit to $7,250,000. The total undrawn portion of this line of credit was $42,750,000. Total current liabilities decreased by $865,745 due to a decrease in accrued interest payable.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2016 and 2015

IMEA FINANCIAL ANALYSIS (cont.)

STATEMENTS OF NET POSITION (cont.)

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

	2016	2015	2014
Operating revenues	$318,081,254	$312,314,685	$327,102,020
Depreciation expense	34,320,066	33,126,911	32,659,266
Other operating expenses	211,992,597	205,766,755	217,462,750
Total Operating Expenses	246,312,663	238,893,666	250,122,016
Operating Income	71,768,591	73,421,019	76,980,004
Investment income	2,013,301	3,425,234	(864,374)
Interest and amortization expense	(47,749,764)	(56,806,181)	(58,598,914)
Other income/(expense)	5,525	(18,071)	32,816
Total Non-Operating Expenses	(45,730,938)	(53,399,018)	(59,430,472)
Change in Net Position	26,037,653	20,022,001	17,549,532
Net Position, Beginning of Year	147,879,939	127,857,938	110,308,406
Net Position, End of Year	$173,917,592	$147,879,939	$127,857,938

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2016 and 2015

IMEA FINANCIAL ANALYSIS (cont.)

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Year Ended April 30, 2016

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

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

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

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

Year Ended April 30, 2015

Sales to participating members of $297,920,665 and 3,974,872,808 kilowatt hours ("kWh") were recorded during the fiscal year ended April 30, 2015. This represented a decrease of $15,408,751 (5%) in revenue from sales to participating members and a decrease of 127,964,124 kWh (3%) as compared with the previous year. IMEA also supplies the Rural Electric Convenience Cooperative (RECC) with full requirements power supply service which accounted for additional revenue of $9,487,955 which is reflected in sales to others.

IMEA recorded a coincident peak demand of 863 MW which was approximately 11% lower than the 968 MW experienced in the previous year. The total member non-coincident peak demand was 942 MW which included both sales to participating members and to RECC. This non-coincident peak demand was approximately 6% lower than the previous year. The decrease in peak demand usage was caused by extremely mild weather conditions experienced in the mid-west during the summer of 2014.

The average cost of power sold to the participating members was 7.49 cents per kWh which was approximately 2% lower than the previous year.

Total operating expenses decreased by $11,228,350 (4.5%) from the previous year due primarily to lower purchased power expense. Interest income increased during this year by $4,289,608.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2016 and 2015

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, 2016 and 2015 was approximately 113% and 110% respectively after transfers to the rate stabilization account. IMEA transferred $4,000,000 during the year ended April 30, 2016 and $4,700,000 during the year ended April 30, 2015 into the rate stabilization account which reduced the debt service covered during both of these years. Without these rate stabilization transfers, debt service coverage would have been 117% for the year ended April 30, 2016 and 115% for the year ended April 30, 2015.

SIGNIFICANT EVENTS

POWER SUPPLY SYSTEM REVENUE REFUNDING BONDS, SERIES 2015A

On April 28, 2015, IMEA issued the Power Supply System Revenue Refunding Bonds, Series 2015A ("Series 2015A Bonds") in the par amount of $594,685,000. The Series 2015A Bonds were issued to (1) refinance a portion of Power Supply System Revenue Bonds, Series 2006 and a portion of the Power Supply System Revenue Bonds, Series 2007A; and (2) fund the costs of issuance of the Series 2015A Bonds. The Series 2015A Bonds have coupon interest rates that range from 4% to 5% and a final maturity date of February 1, 2035. The refinancing will result in a reduction of future debt service of approximately $112 million. The present value of the reduction in debt service is approximately $83 million.

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.

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ILLINOIS MUNICIPAL ELECTRIC AGENCY

STATEMENTS OF NET POSITION
As of April 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2016	2015
UTILITY PLANT		
Utility plant in service	$ 1,230,788,362	$ 1,214,871,130
Accumulated depreciation	(186,823,813)	(155,392,678)
Construction work in progress	25,996,564	22,478,972
Total Utility Plant	1,069,961,113	1,081,957,424
RESTRICTED ASSETS		
Investments	104,508,640	105,604,914
CURRENT ASSETS		
Cash	44,779,651	68,199,370
Investments	29,495,308	2,370,970
Accounts receivable	25,005,068	24,014,078
Bond interest subsidy receivable	2,349,168	2,387,524
Renewable energy credits	3,476,737	2,199,152
Prepayments	28,006,778	22,645,397
Collateral held for others	25,023,003	-
Total Current Assets	158,135,713	121,816,491
OTHER ASSETS		
Regulatory costs for future recovery	3,878,725	4,258,598
Prairie State - other long term asset	2,301,043	2,673,233
Total Other Assets	6,179,768	6,931,831
Total Assets	1,338,785,234	1,316,310,660
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	40,415,512	44,266,182
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,379,200,746	$ 1,360,576,842

NET POSITION AND LIABILITIES

	2016	2015
NET POSITION		
Net investment in capital assets	$ 72,267,542	$ 46,944,830
Restricted	7,383,227	7,274,396
Unrestricted	94,266,823	93,660,713
Total Net Position	173,917,592	147,879,939
NONCURRENT LIABILITIES		
Revenue bonds	1,006,575,000	1,045,885,000
Other long-term debt - line of credit	8,500,000	7,250,000
Unamortized premium	74,684,303	81,441,703
Other liabilities	19,717,654	8,519,467
Total Noncurrent Liabilities	1,109,476,957	1,143,096,170
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses		
Accounts Payable		
Purchased power and transmission	9,548,117	10,539,635
Jointly-owned facilities	6,765,067	8,198,339
Other	147,644	216,160
Other current liabilities	347,173	364,008
Collateral held for others	25,023,003	-
Total Accounts Payable and Accrued Expenses	41,831,004	19,318,142
Current Liabilities Payable from Restricted Assets		
Current maturities of revenue bonds	39,310,000	41,375,000
Accounts payable - jointly-owned facilities	407,127	757,119
Accounts payable - bond issuance costs	-	200,650
Interest accrued	14,258,066	7,949,822
Total Current Liabilities Payable from Restricted Assets	53,975,193	50,282,591
Total Current Liabilities	95,806,197	69,600,733
Total Liabilities	1,205,283,154	1,212,696,903
TOTAL NET POSITION AND LIABILITIES	$ 1,379,200,746	$ 1,360,576,842

See accompanying notes to financial statements.

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ILLINOIS MUNICIPAL ELECTRIC AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended April 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Sales to participating members	$ 305,397,433	$ 297,920,665
Sales to others	9,250,649	9,487,955
Other income	3,433,172	4,906,065
Total Operating Revenues	318,081,254	312,314,685
OPERATING EXPENSES		
Purchased power and transmission	114,770,323	106,935,574
Prairie State and Trimble County Units No. 1 and 2		
Fuel	41,685,758	43,282,351
Operations and maintenance	36,285,399	36,338,400
Member Payments		
Fuel reimbursements	823,604	1,119,275
Capacity payments	9,183,749	9,202,280
Generation payments	2,728	2,774
Administration and general	7,313,294	7,456,187
Depreciation	34,320,066	33,126,911
Other utility operations	1,927,742	1,429,914
Total Operating Expenses	246,312,663	238,893,666
Operating Income	71,768,591	73,421,019
NONOPERATING REVENUE (EXPENSES)		
Investment income	2,013,301	3,425,234
State grant expense	-	(32,816)
Bond interest subsidy revenue	8,988,066	9,043,661
Interest expense	(59,263,347)	(65,580,073)
Amortization expense	2,525,517	(269,769)
Other income	5,525	14,745
Total Nonoperating Expenses	(45,730,938)	(53,399,018)
CHANGE IN NET POSITION	26,037,653	20,022,001
NET POSITION - Beginning of Year	147,879,939	127,857,938
NET POSITION - END OF YEAR	$ 173,917,592	$ 147,879,939

See accompanying notes to financial statements.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from power sales	$ 303,647,010	$ 297,961,390
Paid to suppliers for purchased power and transmission	(115,761,841)	(105,768,693)
Paid to suppliers and employees for other services	(91,401,625)	(80,929,172)
Net Cash Flows from Operating Activities	96,483,544	111,263,525
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of grant expenditures	-	(32,816)
Proceeds from line of credit draws	8,500,000	5,250,000
Payment of line of credit debt	(7,250,000)	(6,500,000)
Net Cash Flows from Noncapital Financing and Related Activities	1,250,000	(1,282,816)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt principal paid	(41,375,000)	(36,960,000)
Interest paid	(52,955,103)	(73,860,709)
Proceeds from debt issuance	-	647,383
Debt issuance costs	(200,650)	(429,154)
Payments to escrow during refunding	-	(18,071,287)
Receipt of funds from member for escrow deposit	-	8,774,864
Bond interest subsidy received	9,026,422	9,056,884
Acquisition and construction of capital assets	(11,342,996)	(15,987,356)
Asset retirement obligation costs incurred	(291,174)	-
Net Cash Flows From Capital and Related Financing Activities	(97,138,501)	(126,829,375)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	2,013,301	3,425,234
Purchase of long-term investments	(166,034,511)	(64,044,390)
Maturity of long-term investments	133,345,000	77,479,000
Net Cash Flows from Investing Activities	(30,676,210)	16,859,844
Net Change in Cash and Cash Equivalents	(30,081,167)	11,178
CASH AND CASH EQUIVALENTS – Beginning of Year	77,895,299	77,884,121
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 47,814,132	$ 77,895,299
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in asset retirement obligation liability	$ 11,286,455	$ (76,931)
Accretion expense	$ 159,240	$ 388,166
Amortization expense	$ 2,525,517	$ (269,769)
Credits given on billings	$ (10,010,081)	$ (10,324,330)
Net loss on sale of assets	$ 5,525	$ 14,745
Premium on refunding	$ -	$ 80,533,843
Bond proceeds used in refunding	$ -	$ 594,685,000
Underwriters discount paid by refunding	$ -	$ (588,796)
Loss on refunding	$ -	$ 55,001,244
Write off unamortized loss on advance refunding	$ -	$ (12,158,082)
Write off debt issuance costs	$ -	$ (4,326,869)
Write off unamortized premium	$ -	$ 8,682,657

	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 71,768,591	$ 73,421,019
Noncash items included in operating income		
Depreciation	34,320,066	33,126,911
Other non-cash transactions	226,071	166,311
Changes in assets and liabilities		
Accounts receivable	(990,990)	296,130
Prepayments	(5,361,381)	955,260
Allowance inventory	(1,277,585)	(239,452)
Accounts payable	(2,161,226)	3,517,348
Other current liabilities	(40,000)	19,998
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 96,483,544	$ 111,263,525
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Restricted investments	$ 104,508,640	$ 105,604,914
Cash	44,779,651	68,199,370
Investments	29,495,308	2,370,970
Total Cash and Investments	178,783,599	176,175,254
Long-term investments	(130,969,467)	(98,279,955)
TOTAL CASH AND CASH EQUIVALENTS	$ 47,814,132	$ 77,895,299

See accompanying notes to financial statements.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

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

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

As of April 30, 2016, IMEA had 32 member municipalities, all of which have executed long-term power sales contracts for the purchase of full requirements power and energy from IMEA. The termination date for all of the power sales contracts with participating members is September 30, 2035. These members participate in the IMEA owned generation facilities and pay rates sufficient to meet the obligations of IMEA's bond resolution.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND NET POSITION

Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Renewable Energy Credits

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

Prepayments

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

Restricted Assets

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

Collateral Held to/for Others

IMEA received collateral from Ameren Corp. pursuant to a guaranty agreement to be held on behalf of Dynegy Corp. The collateral is callable upon request and is classified as an offsetting asset and liability on the statement of net position.

Prairie State - Other Long Term Asset

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

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

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

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

Regulatory Costs for Future Recovery

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

Utility Plant

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

Utility plant of IMEA is recorded at cost or the 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.

Deferred Outflow of Resources

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

Loss on Refunding

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

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

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

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

Other Current Liabilities

Other current liabilities represent accrued vacation benefits and accrued property taxes payable.

Other Liabilities

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

Long-Term Obligations

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

REVENUES AND EXPENSES

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

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

BOND SUBSIDY REVENUE AND RECEIVABLE

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

The United States Federal Government was subject to the process of sequestration for the budget year ending September 30, 2016 and 2015 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.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

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

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 February 1, 2016.

RECLASSIFICATIONS

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*. When they become effective, application of these standards may restate portions of these financial statements.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 2 – CASH AND INVESTMENTS

IMEA's cash and investments consist of the following:

	Carrying Value as of April 30		Associated Risks
	2016	2015	
Illinois Fund	$ 18,016,684	$ 69,534,447	Credit and interest rate risks
Mutual funds	2,582,834	7,381,369	Credit and interest rate risks
U.S. agency securities	131,437,508	98,808,710	Custodial credit, credit, concentration of credit, and interest rate
Checking and savings	26,746,073	450,228	Custodial credit risk
Petty cash	500	500	Not applicable
Totals	$ 178,783,599	$ 176,175,254	

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 time and savings accounts and $250,000 for demand deposit accounts (interest and noninterest bearing). Investments in The Illinois Funds are covered under securities pledged for all pool participants. As of April 30, 2016, cash held in checking and savings is fully collateralized. The difference between the bank balance and carrying value is due to outstanding checks, deposits in transit, and/or market value adjustments.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 2 – CASH AND INVESTMENTS (cont.)

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, 2016 and 2015 respectively, IMEA had $0 and $200,228 of uncollateralized deposits. IMEA management moved the uncollateralized deposit balance into an investment in May 2015. During the year ended April 30, 2016, IMEA's investment policy was amended to require collateralization of deposits above the amount insured by the FDIC.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, IMEA will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held as of April 30, 2016 and 2015, 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, 2016 and 2015 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.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 2 – CASH AND INVESTMENTS (cont.)

CONCENTRATION OF CREDIT RISK (cont.)

As of April 30, 2016 and 2015, IMEA's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio 2016	Percentage of Portfolio 2015
Federal Home Loan Bank Discount	US Agency Securities - Implicitly Guaranteed	8%	12%
Federal Home Loan Bank	US Agency Securities - Implicitly Guaranteed	21%	25%
Federal Farm Credit Banks Funding Corporation	US Agency Securities - Implicitly Guaranteed	48%	40%
Federal Home Loan Mortgage Corporation	US Agency Securities - Implicitly Guaranteed	12%	11%
Federal National Mortgage Association	US Agency Securities - Implicitly Guaranteed	2%	8%

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

INTEREST RATE RISK

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

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

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

IMEA also has $2,582,834 invested in a mutual fund and $18,016,684 in the Illinois Fund with underlying investments of U.S. Treasuries and U.S. Agency Securities as of April 30, 2016. The average maturity of the mutual fund is 47 days and the Illinois Fund is 49 days.

As of April 30, 2015, IMEA's investments were as follows:

		Maturity (In Years)		
Investment Type	Fair Value	Less than 1	1-5	Over 5
U.S. agency securities	$ 98,808,710	$ 27,900,665	$ 45,516,708	$ 25,391,337

IMEA also has $7,613,369 invested in a mutual fund and $69,534,447 in the Illinois Fund with underlying investments of U.S. Treasuries and U.S. Agency Securities as of April 30, 2015. The average maturity of the mutual fund is 51 days and the Illinois Fund is 43 days.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 2 – CASH AND INVESTMENTS (cont.)

INTEREST RATE RISK (cont.)

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

NOTE 3 – JOINTLY-OWNED FACILITIES

TRIMBLE COUNTY UNIT NO. 1

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

TRIMBLE COUNTY UNIT NO. 2

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

PRAIRIE STATE PROJECT

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

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

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

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.
Cost of Issuance	IMEA	To receive proceeds from bond issuance to pay for the cost of issuance of the bonds.
Acquisition Fund	Trustee	To maintain unspent bond proceeds that will be used for construction projects.
Debt Service Account	Trustee	To accumulate principal and interest associated with each bond series.
Debt Service Reserve Account	Trustee	To establish a reserve to cover deficiencies in the Debt Service Account. Any excess may be used for other purposes.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 4 – FUNDS (cont.)

The indenture requires that certain cash and investments be segregated. The following are accounts included in current and restricted assets at April 30, 2016 and 2015.

	2016	2015
Included in Current Assets:		
Revenue	$ -	$ 352,737
Operation and maintenance	26,746,073	27,012,415
Renewals and replacements	2,382,750	2,373,726
General reserve	8,945,369	8,630,392
Rate stabilization	36,200,000	32,200,000
PNC line of credit	267	256
General cash (not restricted by indenture)	500	500
DCEO grant	-	314
Total Current Cash and Investments	$ 74,274,959	$ 70,570,340
Included in Restricted Investment Accounts:		
Acquisition fund	$ 1,669,376	$ 6,853,013
Debt service	22,048,420	16,181,987
Debt service reserve	80,790,844	82,351,685
Cost of issuance	-	218,229
Total Restricted Investments	$ 104,508,640	$ 105,604,914

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 5 – CHANGES IN UTILITY PLANT

A summary of changes in utility plant for 2016 follows:

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

[1] Utility plant that is not being depreciated.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 5 – CHANGES IN UTILITY PLANT (cont.)

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

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 5 – CHANGES IN UTILITY PLANT (cont.)

A summary of changes in utility plant for 2015 follows:

	Balance 5/1/14	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 4/30/15
Utility Plant being depreciated				
Electric plant –				
Trimble County Unit No. 1	$ 113,548,802	$ 253,005	$ (475,862)	$ 113,325,945
Trimble County Unit No. 2	170,673,273	8,393,952	-	179,067,225
Prairie State Unit No. 1	351,453,171	1,072,157	-	352,525,328
Prairie State Unit No. 2	321,009,531	1,830,965	-	322,840,496
Mobile generation	3,116,660	-	-	3,116,660
Prairie State - Common	140,365,421	3,694,873	(6,357)	144,053,937
Prairie State - Jordan Grove	9,922,243	(23,567)	-	9,898,676
Prairie State - Nearfield	6,411,087	1,398,135	-	7,809,222
Prairie State - Other	7,619,807	50,623	-	7,670,430
Prairie State - Mine	38,100,063	1,104,235	-	39,204,298
Prairie State - Coal Reserves	17,312,881	56,129	-	17,369,010
Land[1]	5,966,369	-	-	5,966,369
Office building	8,139,715	-	-	8,139,715
Office furniture and equipment	503,917	2,381	-	506,298
Supervisory control and data acquisition equipment	2,317,855	10,215	-	2,328,070
Winnetka 138 interconnect	500,000	-	-	500,000
Other equipment	512,078	85,718	(48,345)	549,451
Total Utility Plant in Service	1,197,472,873	17,928,821	(530,564)	1,214,871,130
Construction work in progress[1]	25,418,366	14,286,691	(17,226,085)	22,478,972
Total Utility Plant	$ 1,222,891,239	$ 32,215,512	$ (17,756,649)	$ 1,237,350,102

[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, 2016 and 2015

NOTE 5 – CHANGES IN UTILITY PLANT (cont.)

	Balance 5/1/14	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 4/30/15
Less: Accumulated depreciation				
Electric plant –				
Trimble County Unit No. 1	$ (57,955,283)	$ (2,820,148)	$ 475,862	$ (60,299,569)
Trimble County Unit No. 2	(14,638,865)	(4,768,795)	-	(19,407,660)
Prairie State Unit No. 1	(16,798,037)	(8,809,156)	-	(25,607,193)
Prairie State Unit No. 2	(12,038,702)	(8,063,305)	-	(20,102,007)
Mobile generation	(1,237,749)	(103,889)	-	(1,341,638)
Prairie State - Common	(6,794,258)	(3,562,624)	6,357	(10,350,525)
Prairie State - Jordan Grove	(1,890,846)	(991,299)	-	(2,882,145)
Prairie State - Nearfield	(182,662)	(177,997)	-	(360,659)
Prairie State - Other	(726,205)	(382,000)	-	(1,108,205)
Prairie State - Mine	(4,769,363)	(2,584,177)	-	(7,353,540)
Prairie State - Coal Reserves	(853,467)	(413,004)	-	(1,266,471)
Office building	(1,682,269)	(261,631)	-	(1,943,900)
Office furniture and equipment	(439,613)	(25,968)	-	(465,581)
Supervisory control and data acquisition equipment	(2,108,308)	(84,896)	-	(2,193,204)
Winnetka 138 interconnect	(294,445)	(16,666)	-	(311,111)
Other equipment	(383,503)	(61,356)	45,589	(399,270)
Total Accumulated Depreciation	(122,793,575)	(33,126,911)	527,808	(155,392,678)
Net Utility Plant	$ 1,100,097,664			$ 1,081,957,424

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 6 – LONG TERM OBLIGATIONS

IMEA has issued the following revenue bonds:

Date	Purpose	Final Maturity	Interest Rates	Original Issue	Outstanding Amount 4/30/16
Sept. 6, 2007	Capital improvements	Feb. 1, 2035	4.00 – 5.25%	$ 575,700,000	$ 17,455,000
Nov. 5, 2007	Refinance 1998 bonds	Feb. 1, 2021	5.00 – 5.20%	51,360,000	23,370,000
Jul. 15, 2009	Debt service and capital improvements *	Feb. 1, 2035	5.33 – 6.13%	294,755,000	287,005,000
Nov. 30, 2010	Debt service and capital improvements *	Feb. 1, 2035	2.47 – 7.29%	140,290,000	123,370,000
April 1, 2015	Refunding 2006 and 2007A bonds	Feb. 1, 2035	4.00 – 5.00%	594,685,000	594,685,000

* The 2009C and 2010A revenue bonds are taxable Build America Bonds. IMEA receives a 35% interest subsidy from the federal government for these bonds. During Federal fiscal years 2016 and 2015, the U.S. federal government was subject to the process of sequestration reducing spending amounts for many programs including payments to the issuers of BAB's. A 6.8% and a 7.3% reduction in payments for the federal budget year ended September 30, 2016 and 2015, respectively, was experienced. The subsidy payment is not taken into account in the debt service displayed below.

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

Year	Principal	Interest	Total
2017	$ 39,310,000	$ 57,665,955	$ 96,975,955
2018	41,095,000	55,615,262	96,710,262
2019	42,950,000	53,472,073	96,422,073
2020	44,895,000	51,234,173	96,129,173
2021	46,945,000	48,839,925	95,784,925
2022 - 2026	238,815,000	206,247,107	445,062,107
2027 – 2031	298,415,000	131,437,199	429,852,199
2032 – 2035	293,460,000	39,215,014	332,675,014
Totals	$ 1,045,885,000	$ 643,726,708	$ 1,689,611,708

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

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 6 – LONG TERM OBLIGATIONS (cont.)

Committed Line of Credit

On October 29, 2010, IMEA entered into a $25 million Committed Line of Credit agreement (LOC Agreement) with PNC Bank. Under the LOC Agreement, IMEA may draw funds and/or post standby letters of credit. The LOC Agreement was increased to $50 million on September 1, 2012 and expires on October 29, 2019. IMEA had $8.5 million and $7.25 million outstanding under the LOC Agreement as of April 30, 2016 and 2015, respectively.

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

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

Long-term obligation activity for the year ended April 30, 2015 is as follows:

	Balance 5/1/14	Additions	Reductions	Balance 4/30/15	Due Within One Year
Revenue bonds	$ 1,174,390,000	$ 594,685,000	$ 681,815,000	$ 1,087,260,000	$ 41,375,000
Line of credit agreement	8,500,000	5,250,000	6,500,000	7,250,000	-
Unamortized premium	10,686,510	80,533,843	9,778,650	81,441,703	-
Other liabilities	8,174,288	351,066	5,887	8,519,467	-
Totals	$ 1,201,750,798	$ 680,819,909	$ 698,099,537	$ 1,184,471,170	$ 41,375,000

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 7 – ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

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

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

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

Balance 5/1/15	Liabilities Incurred	Accretion	Costs Incurred	Balance 4/30/16
$ 8,052,212	$ 11,286,455	$ 159,240	$ (291,174)	$ 19,206,733

Balance 5/1/14	Liabilities Incurred	Accretion	Balance 4/30/15
$ 7,740,977	$ (76,931)	$ 388,166	$ 8,052,212

NOTE 8 – NET POSITION

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

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

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

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

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

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 8 – NET POSITION (cont.)

The following calculation supports the net investment in capital assets:

	2016	2015
Utility plant in service	$ 1,230,788,362	$ 1,214,871,130
Accumulated depreciation	(186,823,813)	(155,392,678)
Construction work in progress	25,996,564	22,478,972
Sub-totals	1,069,961,113	1,081,957,424
Less: Capital related debt		
Current portion of capital related long-term debt	39,310,000	41,375,000
Long-term portion of capital related long-term debt	1,006,575,000	1,045,885,000
Unamortized loss on advance refunding	(40,415,512)	(44,266,182)
Unamortized premium	74,684,303	81,441,703
Sub-totals	1,080,153,791	1,124,435,521
Add: Unspent debt proceeds		
Debt service reserve from borrowing	80,790,844	82,351,685
Acquisition fund	1,669,376	7,071,242
Sub-totals	82,460,220	89,422,927
Total Net Investment in Capital Assets	$ 72,267,542	$ 46,944,830

The following calculation supports the amount of restricted net position:

	2016	2015
Restricted investments	$ 104,508,640	$ 105,604,914
Less: Restricted Assets Not Funded by Revenues		
Debt service reserve account	(80,790,844)	(82,351,685)
Acquisition funds	(1,669,376)	(7,071,242)
Total Restricted Net Position Not Funded by Revenues	(82,460,220)	(89,422,927)
Current liabilities payable from restricted assets	(14,665,193)	(8,907,591)
Total Restricted Net Position as Calculated	$ 7,383,227	$ 7,274,396

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2016 and 2015

NOTE 9 – REGULATORY COSTS FOR FUTURE RECOVERY

Regulatory costs for future recovery includes unamortized debt issuance costs, which amounted to $3,878,725 and $4,258,598 for the years ended April 30, 2016 and 2015, respectively. IMEA has chosen to use the application of GASB 62 to recover these costs in future periods.

NOTE 10 – EMPLOYEE RETIREMENT PLAN

IMEA's employees are covered by the Illinois Municipal Electric Agency Pension Plan, a defined contribution money purchase pension plan with a 5 year vesting schedule. Benefit provisions and all other requirements are established by the board of IMEA. IMEA contributes 25% of eligible employee earnings on behalf of each employee. Employees that terminate service prior to being fully vested, forfeit the unvested portion of their account balance which is applied to future contributions to the plan. Total contributions to the plan by IMEA, net of applied forfeitures, for the years ended April 30, 2016, 2015 and 2014 were $787,000, $705,000, and $742,000, respectively. Total covered payroll for the respective years was $3,148,000, $3,108,000, and $2,967,000.

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.

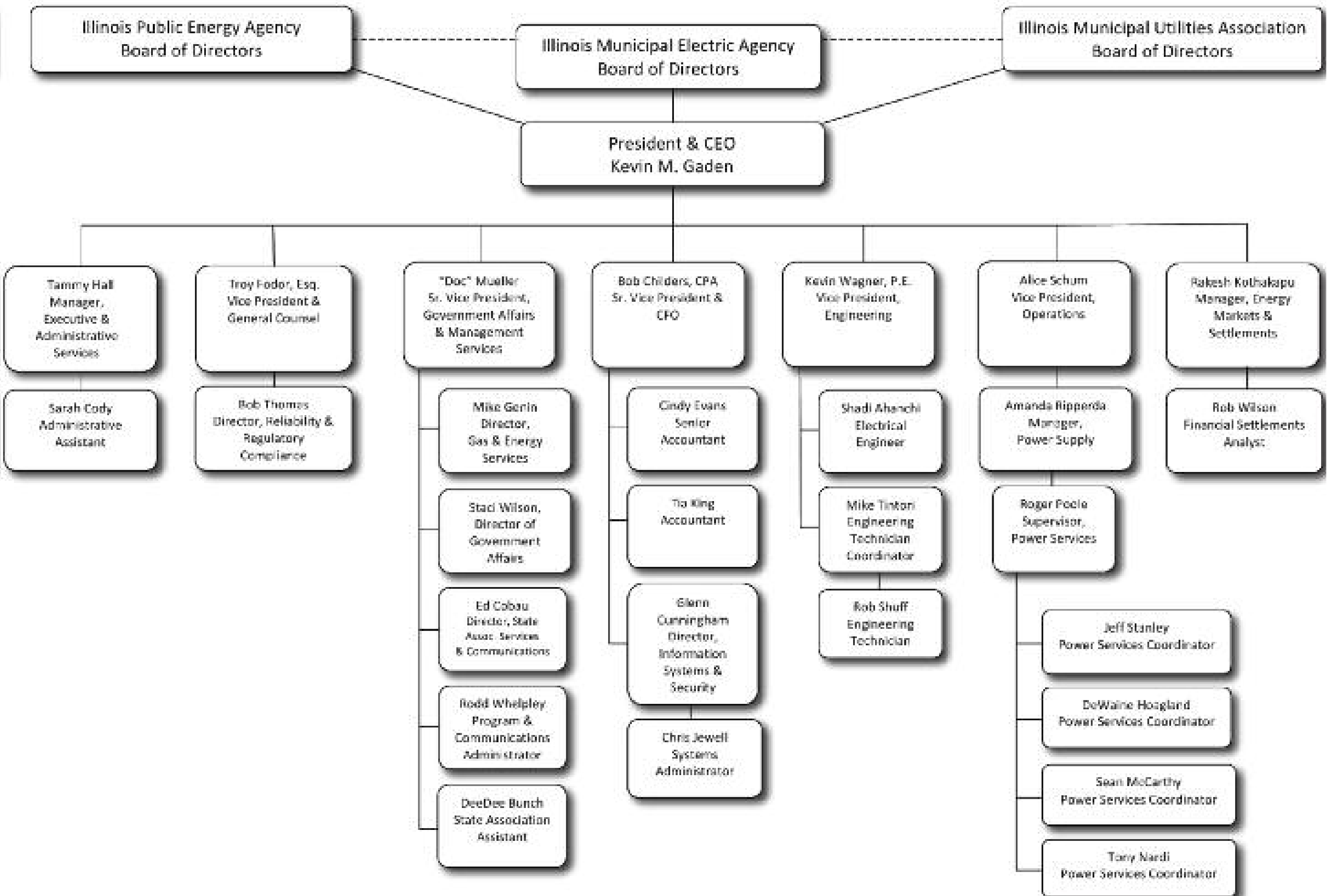
NOTE 12 – SIGNIFICANT CUSTOMERS

IMEA has two significant customers who were responsible for 48% of operating revenue in both 2016 and 2015.

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.

Organizational Chart



IMEA
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3400 Conifer Drive
Springfield, IL 62711
217-789-4632
www.imea.org