

# Northern Illinois Municipal Power Agency

Financial Statements as of and for the  
Years Ended December 31, 2010 and 2009,  
Management's Discussion and Analysis, and  
Independent Auditors' Report

# NORTHERN ILLINOIS MUNICIPAL POWER AGENCY

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## Management's Discussion and Analysis

This discussion and analysis of the Northern Illinois Municipal Power Agency's (NIMPA or the Agency) provides an overview of the Agency's activities for the fiscal year ended December 31, 2010. It should be read in conjunction with the basic financial statements and the accompanying notes.

### Financial Statements

The financial statements presented herein include all of the activities of NIMPA. The Agency substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. These statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. NIMPA has implemented all Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

The statements of revenues, expenses and changes in net assets and cash flows present information about NIMPA's business activities. The balance sheets report year-end assets, liabilities and net assets balances based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses, as appropriate. Over time, increases in the Agency's net assets are one indicator of its financial strength.

### Statements of Revenues, Expenses and Changes in Net Assets

Operating revenues were generated from fees billed to the three Illinois municipalities: Batavia, Geneva, and Rochelle (the "Members") related to other operating expenses of the Agency. The increase in operating revenues is due to increased operating costs from purchased power contracts in effect during 2010. Operating expenses were comprised primarily of purchased power, consulting, legal and accounting expenses. Other expenses and income consist of interest expense on taxable bonds, the interest income on unexpended proceeds of taxable bonds and the amortization of bond premium and costs. Future recoverable costs are expenses recoverable in future periods and is shown as negative expense.

All expenditures for the Prairie State Project, as defined herein and any other generation projects under development are capitalized and included in utility plant on NIMPA's balance sheets.

### CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (\$ thousands)

	2010	2009
OPERATING REVENUES	<u>\$ 12,046</u>	<u>\$ 110</u>
OPERATING EXPENSES	12,046	110
FUTURE RECOVERABLE COSTS	(1,426)	(1,181)
OTHER EXPENSE (INCOME)	<u>1,426</u>	<u>1,181</u>
NET INCOME	-	-
NET ASSETS — Beginning of year	<u>-</u>	<u>-</u>
NET ASSETS — End of year	<u>\$ -</u>	<u>\$ -</u>

## Balance Sheets

At December 31, 2010, utility plant had a balance of approximately \$363.5 million. Utility plant consists primarily of costs associated with the construction of the Prairie State Project. Cash and cash equivalents had a balance of \$183.9 million at December 31, 2010. Cash and cash equivalents are primarily unexpended proceeds from the Long-term Revenue Bonds, as defined herein. The increase in utility plant is due primarily to the progress on the construction of the Prairie State Project. The decrease in cash and cash equivalents is primarily due to the construction of the Prairie State Project net of the proceeds received from the issuance of the 2010A Bonds.

Long-term Revenue Bonds are NIMPA's 2007 Series A and B Power Project Revenue Bonds (2007 Bonds), the 2009 Series B and C Power Project Revenue Bonds (2009 Bonds) and the 2010 Series A Power Project Revenue Bonds (2010 Bonds). The par value of the Long-term Revenue Bonds is \$533.0 million and the bonds have final maturities ranging from January 1, 2040 to January 1, 2042.

### CONDENSED BALANCE SHEETS

(\$ millions)

	2010	2009
Utility plant — net	\$ 363.5	\$ 220.1
Cash and cash equivalents	183.9	250.4
Other current assets	1.8	0.1
Deferred costs	<u>8.3</u>	<u>6.4</u>
Total assets	<u>\$ 557.5</u>	<u>\$ 477.0</u>
Invested in capital assets — net of related debt	\$ (173.6)	\$ (244.8)
Restricted	167.2	238.0
Unrestricted	<u>6.4</u>	<u>6.8</u>
Total net assets	<u>-</u>	<u>-</u>
Non-current liabilities	538.2	465.5
Current liabilities	<u>19.3</u>	<u>11.5</u>
Total liabilities	<u>557.5</u>	<u>477.0</u>
Total net assets and liabilities	<u>\$ 557.5</u>	<u>\$ 477.0</u>

## INDEPENDENT AUDITORS' REPORT

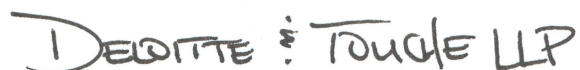
To the Board of Directors of  
Northern Illinois Municipal Power Agency  
Rochelle, Illinois

We have audited the accompanying balance sheets of Northern Illinois Municipal Power Agency (the "Agency") as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Agency as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1-2, which is the responsibility of the Agency's management, is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



March 15, 2011

# NORTHERN ILLINOIS MUNICIPAL POWER AGENCY

**BALANCE SHEETS**  
**AS OF DECEMBER 31, 2010 AND 2009**  
(In thousands)

	2010	2009
<b>ASSETS</b>		
UTILITY PLANT — Construction work in progress	\$ 363,536	\$ 220,169
RESTRICTED CASH AND CASH EQUIVALENTS	<u>180,027</u>	<u>249,366</u>
CURRENT ASSETS:		
Unrestricted cash and cash equivalents	3,852	1,050
Accrued interest receivable and other assets	<u>1,826</u>	<u>47</u>
Total current assets	<u>5,678</u>	<u>1,097</u>
DEFERRED COSTS AND OTHER ASSETS:		
Bond issuance costs	5,271	4,856
Emission allowances	376	376
Regulatory assets	<u>2,586</u>	<u>1,161</u>
Total deferred costs	<u>8,233</u>	<u>6,393</u>
TOTAL	<u>\$ 557,474</u>	<u>\$ 477,025</u>
<b>NET ASSETS AND LIABILITIES</b>		
NET ASSETS:		
Invested in capital assets — net of related debt	\$ (173,573)	\$ (244,827)
Restricted	167,232	238,032
Unrestricted	<u>6,341</u>	<u>6,795</u>
Total net assets	<u>-</u>	<u>-</u>
NON-CURRENT LIABILITIES:		
Regulatory liabilities	376	376
Other non-current liabilities	739	147
Long-term revenue bonds — net	<u>537,109</u>	<u>464,996</u>
Total non-current liabilities	<u>538,224</u>	<u>465,519</u>
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	6,428	48
Accrued interest on revenue bonds	12,795	11,334
Due to members		97
Deferred revenue	<u>27</u>	<u>27</u>
Total current liabilities	<u>19,250</u>	<u>11,506</u>
TOTAL	<u>\$ 557,474</u>	<u>\$ 477,025</u>

See notes to financial statements.

# NORTHERN ILLINOIS MUNICIPAL POWER AGENCY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

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	2010	2009
REVENUES	<u>\$ 12,046</u>	<u>\$ 110</u>
EXPENSES AND OTHER:		
Purchased power	11,859	
Other operating	187	110
Interest expense on revenue bonds	1,390	1,818
Amortization of bond premium and issuance costs	83	11
Interest income	(48)	(648)
Future recoverable costs	<u>(1,425)</u>	<u>(1,181)</u>
Total expenses and other	<u>12,046</u>	<u>110</u>
NET INCOME	-	-
NET ASSETS — Beginning of year	<u>          </u>	<u>          </u>
NET ASSETS — End of year	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

# NORTHERN ILLINOIS MUNICIPAL POWER AGENCY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Other operating receipts	\$ 10,248	\$ 208
Payments for purchased power	(10,156)	0
Payments for other operating expenses	<u>(186)</u>	<u>(119)</u>
Net cash provided by (used in) operating activities	<u>(94)</u>	<u>89</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to utility plant	(117,391)	(85,518)
Subsidy received on Build America Bonds	2,799	1,027
Proceeds from issuance of long-term debt	71,646	140,423
Interest payments	<u>(23,880)</u>	<u>(16,002)</u>
Net cash provided by (used in) capital and related financing activities	<u>(66,826)</u>	<u>39,930</u>
CASH FLOWS FROM INVESTING ACTIVITIES — Interest income and other	<u>383</u>	<u>1,398</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(66,537)	41,417
CASH AND CASH EQUIVALENTS — Beginning of year	<u>250,416</u>	<u>208,999</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 183,879</u>	<u>\$ 250,416</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,425	\$ 1,181
Adjustments to reconcile operating income to net cash provided by operating activities:		
Future recoverable costs	(1,425)	(1,181)
Changes in certain assets and liabilities:		
Accounts payable, accrued liabilities, and other	<u>(94)</u>	<u>89</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (94)</u>	<u>\$ 89</u>

See notes to financial statements.

# NORTHERN ILLINOIS MUNICIPAL POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

**Organization and Operations** — Northern Illinois Municipal Power Agency (NIMPA or the Agency) is a joint municipal electric power agency and a body politic and corporate, municipal corporation and unit of local government of the State of Illinois. NIMPA was created by contract on May 24, 2004, for the purpose of effecting the joint development of electric energy resources for the production, transmission and distribution of electric power and energy. NIMPA's members currently consist of three Illinois municipalities: Batavia, Geneva, and Rochelle (the "Members").

NIMPA has sold all of its rights to capacity and energy from the Prairie State Project pursuant to take-or-pay power sales agreements with the Members.

**Basis of Presentation** — The Agency substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. NIMPA has chosen the option to implement all Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

**Utility Plant** — The Agency's share of all costs associated with the development and construction of the Prairie State Project are capitalized, including interest expense incurred, interest income earned on tax exempt bond proceeds and Build America Bond subsidies earned during the construction period. During 2010 and 2009, the Agency capitalized interest expense incurred, and interest and Build America Bond subsidies earned totaling \$20.7 million and \$16.0 million, respectively. The Agency generally capitalizes costs associated with other capital projects when such costs are in excess of \$2,500.

**Funds** — NIMPA's Trust Indenture, dated August 1, 2007 (the "Indenture"), provides for the creation and maintenance of certain funds and accounts. The Debt Service Fund, the Debt Service Reserve Fund and the Project Funds are restricted under the Indenture. The Project Fund includes restricted proceeds from tax-exempt bonds issued for specified capital projects. The Revenue Fund, the General Reserve Fund and the Operation and Maintenance Fund are all unrestricted and are to be used for the operating needs of the Agency.

**Restricted and Unrestricted Cash and Cash Equivalents** — NIMPA considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Regulatory Assets and Liabilities** — Regulatory assets are expenses incurred that will be recovered in future rates and regulatory liabilities are collections from members for emission allowances that will be utilized in plant operations in future periods. As a rate regulated entity, NIMPA's financial statements reflects the actions of the Board of Directors that result in the recognition of revenues and expenses in different time periods than enterprises that are not rate regulated in accordance with FASB Accounting Standards Codification 980, Regulated Operations (ASC 980). The Agency does not earn a return on regulatory assets and liabilities.

Under the terms of the power sales contracts, costs in excess of the amounts currently billable to members are to be recovered from future revenues by setting rates sufficient to provide funds for the related debt service requirements. These non-cash costs, which primarily include depreciation and amortization expenses in excess of current principal payments, will be recovered over the lives of the bonds. The lives of the bonds do not exceed the utility plant useful life.

If rate recovery of generation-related costs becomes unlikely, whether due to competition or regulatory action, ASC 980 may no longer apply to NIMPA's generation operations. This potential accounting change could result in either full recovery of net generation-related regulatory assets or a non-cash write-off. Based on NIMPA's current regulatory environment, management believes that the Agency's future recoverable costs are probable of future recovery.

**Bond Issuance Costs** — Certain costs associated with the issuance of debt have been deferred and are being amortized over the life of the respective bonds. Unamortized debt issuance costs total \$5.3 million and \$4.9 million at December 31, 2010 and 2009, respectively.

**Revenues** — Assessments are periodically charged to members for the purpose of providing the Agency with cash on hand. These assessments are provided for administrative and practical reasons. Starting in 2010 assessments were charged to certain members based on purchased power contracts entered into by the Agency. These collections represent deferred revenue until expenses are incurred. At such time expenses are incurred, the Agency recognizes revenue.

**Expenses** — Operating expenses are defined as expenses directly related to, or incurred in support of, the production and transmission of electricity to the participating communities NIMPA serves. Future recoverable costs represents the regulatory effect of operating and non-operating income and expenses deferred to future periods.

**Income Taxes** — NIMPA, as a unit of local government of the State of Illinois, is exempt from federal and state income taxes.

**Indiana Municipal Power Agency (IMPA)** — NIMPA has hired IMPA, a participant in the Prairie State Project, through a management services agreement to provide general management and administrative services.

**Use of Estimates** — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires NIMPA to make estimates and assumptions that affect the reported assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Accounting Pronouncements Issued** — In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASBS No. 53) which requires most derivatives to be recorded at fair value. The changes in fair value of hedging derivative instruments will be reported as deferred gains or loss on the balance sheet. The changes in the fair value of other derivative instruments that are investment derivative instruments, including those that are ineffective hedges, are reported as income or loss in the investment revenue classification in the current year. GASBS No. 53 is effective for the Agency on January 1, 2010. The adoption of GASBS No. 53 did not have a material impact on the financial statements.

## 2. CAPITAL ASSETS

Utility Plant primarily includes the development and construction costs of NIMPA's share of the Prairie State Project. The Prairie State Project will include an approximately 1,600 megawatt (MW) coal fired generating station, coal reserves adjacent to the plant site and coal mining facilities. The mining facilities are expected to be constructed and in production by early 2011. The generating station is expected to commence full commercial operation by the summer of 2012. NIMPA's 7.6% undivided interest in the Prairie State Project entitles NIMPA to approximately 120 MW of capacity and output at the Prairie State Generating Station and a proportionate share of the adjacent coal reserves and mining facilities.

NIMPA's three members have the following entitlement shares of NIMPA's ownership interest in the Prairie State Project:

City	Entitlement Share Percentage
Batavia	45.83 %
Geneva	29.17
Rochelle	<u>25.00</u>
Total	<u>100.00 %</u>

At December 31, 2010 and 2009, capital assets included \$363.5 million and \$220.1 million of construction work in progress, respectively, including coal reserves.

## 3. FINANCIAL INSTRUMENTS

NIMPA's investment activities are governed by the Indenture. At December 31, 2010 and 2009, cash and cash equivalents include money market investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, NIMPA records financial instruments at fair value unless certain conditions are met. At December 31, 2010 and 2009, the amortized cost of the financial instruments held by NIMPA approximated estimated fair value.

## 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, receivables and certain other liabilities approximates fair value due to the short maturity of the instruments. At December 31, 2010 and 2009, the estimated fair value of long-term debt is approximately \$493.8 million and \$444.1 million, respectively. The estimated fair value of long-term debt is primarily based on quoted market prices for the same or similar debt issues.

## 5. NET ASSETS

At December 31, 2010 and 2009, NIMPA's net assets can be broken down into the following components (in thousands):

	2010	2009
Invested in capital assets — net of related debt	\$(173,573)	\$(244,827)
Restricted for debt service	4	4
Restricted for debt service reserve	35,305	30,514
Restricted for bond financed construction projects and capitalized interest	131,923	207,514
Unrestricted	<u>6,341</u>	<u>6,795</u>
	<u>\$ -</u>	<u>\$ -</u>

The Indenture restricts the debt service, debt service reserve and the bond financed construction projects and capitalized interest accounts.

## 6. LONG-TERM REVENUE BONDS

NIMPA has issued Power Project Revenue Bonds to finance its acquisition and construction of the Prairie State Project. Long-term revenue bonds issued and outstanding at December 31, 2010 and 2009, consist of the following (in thousands):

	Interest Rate	Due Date January 1,	Optional Redemption Date January 1,	2010	2009
2007 Series A	5.000 %	2016–2042	2019	\$ 303,575	\$ 303,575
2007 Series B	5.350–5.510	2013–2016		15,175	15,175
2009 Series B	4.440–5.688	2013–2017		22,280	22,280
2009 Series C	5.688–6.859	2017–2039	See below	119,670	119,670
2010 Series A	7.620–7.820	2018–2040	See below	<u>72,310</u>	<u>          </u>
				533,010	460,700
Plus unamortized premium				<u>4,099</u>	<u>4,296</u>
				<u>\$ 537,109</u>	<u>\$ 464,996</u>

The 2007 Series A Bonds are callable on or after the optional redemption date at a redemption price of 100%.

Approximately \$7.4 million (par) of the 2009 Series C Bonds, maturing on January 1, 2020 and 2021 are callable on or after January 1, 2019 at a redemption price of 100%. The 2009 Series C Bonds maturing on January 1, 2024 and 2039 totaling approximately \$103.6 million and all of the 2010 Series A Bonds are callable at anytime at a Make Whole Redemption Price. A Make Whole Redemption Price is the greater of 100% of the principal amount of the sum or the present value of the remaining scheduled payments of principal and interest to the maturity date of the bonds redeemed. All of the 2009 Series C Bonds and 2010 Series A Bonds are callable at any time at a Make Whole Redemption Price if an

Extraordinary Event occurs. An Extraordinary Event is a material adverse change to Section 54AA or 6431 of the Internal Revenue Service Code which pertain to Build America Bonds.

Debt service requirements at December 31, 2010, were as follows (in thousands):

	<b>Principal</b>	<b>Interest</b>
2011	\$ -	\$ 25,092
2012		30,944
2013	15,140	30,695
2014	7,645	29,980
2015	8,055	29,582
2016–2020	52,070	140,584
2021–2025	69,825	123,926
2026–2030	88,215	101,453
2031–2035	111,775	72,650
2036–2040	141,715	36,076
2041–2042	<u>38,570</u>	<u>2,916</u>
	<u>\$ 533,010</u>	<u>\$ 623,898</u>

**Rate Covenant** — The Indenture contains covenants that include collection of rates that provide funds for operating costs and aggregate debt service.

## 7. ARBITRAGE

A rebate payable to the Internal Revenue Service (IRS) generally results from the investment of bond proceeds at a higher rate of interest than the cost of borrowing. The excess of interest income over cost of borrowing is payable to the IRS within five years of the date of the bond offering and every five years thereafter. At December 31, 2010 and 2009, no rebate liability was payable to the IRS.

## 8. CONCENTRATION OF RISK

Credit risk represents the risk of loss that would occur if suppliers or customers did not meet their contractual obligations to NIMPA. Concentration of credit risk occurs when significant suppliers or customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

## 9. COMMITMENTS AND CONTINGENCIES

NIMPA is a part of a consortium known as the Prairie State Generating Company, LLC that is developing the Prairie State Project. NIMPA owns a 7.6% undivided interest in the Prairie State Project. The Prairie State Project is planned to be an approximately 1,600 MW power plant, utilizing two supercritical steam units. The Prairie State Project includes contiguous coal reserves and the development of a mine portal to supply coal to the power plant. Construction of the power plant was approximately 62.7% complete at December 31, 2010. NIMPA expects that one of the Prairie State Project units will be available for commercial operation in 2011 and the second unit will be available for commercial operation in 2012. At this time there are no plans to issue additional bonds for the Prairie State Project.

**Contract Disputes** — In the normal course of business, NIMPA 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 NIMPA's financial position.

#### **10. SUBSEQUENT EVENTS**

Management has evaluated subsequent events up through March 15, 2011, which is the issuance date of the financial statements.

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