

Northern Illinois Municipal Power Agency

Balance Sheet as of December 31, 2007,
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 balance sheet at December 31, 2007. It should be read in conjunction with the basic balance sheet and the accompanying notes.

NIMPA's Balance Sheet

The Agency substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. This balance sheet is 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 balance sheet reports year-end assets, liabilities and net assets balances based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses, as appropriate.

At December 31, 2007, utility plant had a balance of approximately \$47.5 million, primarily from the construction of the Prairie State Project. Cash and cash equivalents had a balance of \$276.6 million at December 31, 2007, primarily from the unexpended proceeds from the 2007 Bonds, as defined herein.

On August 30, 2007, NIMPA closed on the sale of NIMPA's 2007 Series A and B Power Project Revenue Bonds (2007 Bonds). The par value of the 2007 Bonds was \$318,715,000 and the bonds have a final maturity of January 1, 2042. The 2007 Bonds were issued to: (1) finance the Prairie State Project; (2) fund interest during construction; (3) pay the cost of issuance of the 2007 Bonds; and (4) fund a deposit to the Debt Service Reserve Fund. The par amount of the 2007 Bonds is included in non-current liabilities on the balance sheet.

Significant Events

Prairie State Project

Final notice to proceed on the Prairie State Project occurred on October 1, 2007, and construction has commenced. NIMPA owns a 7.6% undivided interest in the total plant. The Prairie State Project is planned to be a 1,580 MW coal fired plant, utilizing two nominal 790 MW supercritical steam units. NIMPA expects that one of the Prairie State units will be available for commercial operation in 2011, and the second unit will be available for commercial operation in 2012.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Northern Illinois Municipal Power Agency (the "Agency") as of December 31, 2007. This financial statement is the responsibility of the Agency's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit 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 statement is 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 statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statement presents fairly, in all material respects, the financial position of the Agency at December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on page 1 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency's management. 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 such information and we do not express an opinion on it.

Deloitte & Touche LLP

May 13, 2008

NORTHERN ILLINOIS MUNICIPAL POWER AGENCY

BALANCE SHEET DECEMBER 31, 2007 (In thousands)

ASSETS

UTILITY PLANT:

Construction work in progress \$ 47,508

Total utility plant — net 47,508

RESTRICTED CASH AND CASH EQUIVALENTS

276,622

CURRENT ASSETS:

Unrestricted cash and cash equivalents 18

Other current assets 1,113

Total current assets 1,131

DEFERRED COSTS:

Regulatory assets 6

Other — bond issuance costs 3,708

Total deferred costs 3,714

TOTAL

\$ 328,975

NET ASSETS AND LIABILITIES

NET ASSETS:

Invested in capital assets — net of related debt \$ (275,930)

Restricted 271,244

Unrestricted 4,686

Total net assets -

NON-CURRENT LIABILITIES:

Long-term revenue bonds, net 323,438

Total non-current liabilities 323,438

CURRENT LIABILITIES:

Accounts payable 159

Accrued interest on revenue bonds 5,378

Total current liabilities 5,537

TOTAL

\$ 328,975

See notes to balance sheet.

NORTHERN ILLINOIS MUNICIPAL POWER AGENCY

NOTES TO BALANCE SHEET DECEMBER 31, 2007

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 as of 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").

Basis of Presentation — The Agency substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The balance sheet is 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.

The Agency's share of all costs associated with the development and construction of the Prairie State Project are capitalized, including interest during construction.

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 Illinois cities of Batavia, Geneva and Rochelle.

Funds — NIMPA's Trust Indenture, dated as of 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.

Future Recoverable Costs — Regulatory assets are future recoverable costs. As a rate regulated entity, NIMPA's balance sheet 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 Statement of Financial Accounting Standards No. 71 (SFAS 71), *Accounting for the Effects of Certain Types of Regulation*.

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.

If rate recovery of generation-related costs becomes unlikely, whether due to competition or regulatory action, SFAS 71 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 \$3.7 million at December 31, 2007.

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 balance sheet 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. Actual results could differ from those estimates.

Accounting Pronouncements Issued — In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements (SFAS No. 157)*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is only applicable to existing accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years and must be applied prospectively except for certain derivative instruments that would be adjusted through the opening balance of retained earnings in the period of adoption. Management is currently evaluating the impact of SFAS No. 157 on the balance sheet.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities (SFAS No. 159)*, to permit all entities to choose to elect to measure eligible financial instruments at fair value. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity. The entity is prohibited from retrospectively applying SFAS No. 159 unless it chooses early adoption. Management is currently evaluating the impact of SFAS No. 159 on its balance sheet.

2. CAPITAL ASSETS

Utility Plant primarily includes the development and construction costs of NIMPA's share of the Prairie State Project. NIMPA; AMP368, LLC, a subsidiary of American Municipal Power-Ohio; Illinois Municipal Electric Agency; Kentucky Municipal Power Agency; Lively Grove Energy Partners, LLC, a wholly owned indirect subsidiary of Peabody Energy; Missouri Joint Municipal Electric Commission; Indiana Municipal Power Agency; and Prairie Power, Inc., a wholly owned subsidiary of Soyland Electric Power Cooperative, are presently constructing 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 full 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.

At December 31, 2007, Capital assets included \$47.5 million of construction work in progress.

3. FINANCIAL INSTRUMENTS

NIMPA's investment activities are governed by the Indenture. At December 31, 2007, 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, 2007, 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 approximate fair value due to the short maturity of the instruments. At December 31, 2007, the estimated fair value of long-term debt is approximately \$326.9 million. 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, 2007, NIMPA's net assets can be broken down into the following components (in thousands):

Invested in capital assets — net of related debt	\$ (275,930)
Restricted for debt service reserve	20,748
Restricted for bond financed construction projects and capitalized interest	250,496
Unrestricted	<u>4,686</u>
	<u>\$ -</u>

The Indenture restricts the 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, 2007, consist of the following (in thousands):

	Interest Rate	Due Date January 1,	Optional Redemption Date January 1,	2007
2007 Series A	5.00%	2016–2042	2019	\$ 303,575
2007 Series B	5.35–5.51%	2013–2016		<u>15,175</u>
				318,750
Plus unamortized premium				<u>4,688</u>
				<u>\$ 323,438</u>

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

Debt service requirements at December 31, 2007 were as follows (in thousands):

	Principal	Interest
2008	\$ -	\$ 5,378
2009	-	16,002
2010	-	16,002
2011	-	16,002
2012	-	16,002
2013–2017	26,395	77,325
2018–2022	33,845	69,869
2023–2027	43,200	60,517
2028–2032	55,135	48,583
2033–2037	70,365	33,350
2038–2042	<u>89,810</u>	<u>13,909</u>
	<u>\$ 318,750</u>	<u>\$ 372,939</u>

Rate Covenant — The Indenture contains covenants that include collection of rates equal to the 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, 2007, 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.

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>

9. COMMITMENTS AND CONTINGENCIES

Prairie State Project and Revenue Bonds — On April 25, 2007, the NIMPA Board of Directors approved NIMPA's participation in the construction and operation of the Prairie State Generating Project. During 2007, NIMPA issued approximately \$318.7 million (par amount) of long-term revenue bonds to pay for NIMPA's share of the Prairie State Generating Project, capitalized interest during construction, bond issuance costs, and to fund a deposit to the 2007 A and 2007 B Debt Service Reserve Funds. NIMPA anticipates that the Agency will issue additional bonds over the next five years to fund construction costs not covered by the bonds issued in 2007.

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.

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