ILLINOIS ELECTRIC COOPERATIVE
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2016 AND 2015

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AND SUBSIDIARY
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ILLINOIS ELECTRIC COOPERATIVE
AND SUBSIDIARY
OFFICERS AND DIRECTORS
DECEMBER 31, 2016

Illinois Electric Cooperative:

Name	Office	Address
Thomas D. Meehan III	President	Roodhouse, Illinois
Julia Eberlin	Vice-President	Brussels, Illinois
Kevin Brannan	Secretary	Eldred, Illinois
Ronald K. Myers	Treasurer	Griggsville, Illinois
Jim Freeman	Assistant Treasurer	Bluffs, Illinois
Julie Rhoads	Assistant Secretary	Carrollton, Illinois
Gary K. Clark	Director	New Canton, Illinois
Jennifer Sellars	Director	Winchester, Illinois
Pat Stendback	Director	Pleasant Hill, Illinois
Eric Lakin	Director	Murrayville, Illinois
Luke Fraley	Director	Kampsville, IL

Illinois Rural Telecommunication Company:

Julia Eberlin	Chairman	Brussels, Illinois
Gary K. Clark	Vice-Chairman	New Canton, Illinois
Kevin Brannan	Secretary	Eldred, Illinois
Ronald K. Myers	Treasurer	Griggsville, Illinois
Jim Freeman	Director	Bluffs, Illinois
Thomas D. Meehan III	Ex-Officio	Roodhouse, Illinois
Bruce N. Giffin	President	Winchester, Illinois

INDEPENDENT AUDITORS' REPORT

Board of Directors
Illinois Electric Cooperative and Subsidiary
Winchester, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Illinois Electric Cooperative and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, patronage capital and other equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the consolidated 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 the Cooperative'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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Illinois Electric Cooperative and Subsidiary

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Illinois Electric Cooperative and Subsidiary as of December 31, 2016 and 2015, and their patronage capital and other equities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017, on our consideration of Illinois Electric Cooperative and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Illinois Electric Cooperative and Subsidiary's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
April 25, 2017

ILLINOIS ELECTRIC COOPERATIVE
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
UTILITY PLANT		
Electric Plant in Service	$ 102,049,813	$ 94,056,504
Construction Work in Progress	3,082,903	7,540,385
Total	105,132,716	101,596,889
Less: Accumulated Provision for Depreciation	(19,120,039)	(17,165,320)
Net Utility Plant	86,012,677	84,431,569
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	7,100,410	6,213,449
Notes Receivable	1,998,091	345,634
Other Investments	5,202,683	6,425,556
Other Special Funds	79,901	59,778
Nonutility Property	2,718,993	-
Total Other Assets and Investments	17,100,078	13,044,417
CURRENT ASSETS		
Cash and Cash Equivalents	1,999,210	4,675,724
Accounts Receivable, Net	1,731,724	1,661,255
Current Portion of Notes Receivable	296,138	82,886
Materials and Supplies Inventory	612,605	1,096,996
Other Current and Accrued Assets	2,791,612	2,324,884
Total Current Assets	7,431,289	9,841,745
DEFERRED DEBITS	1,102,045	1,452,471
ASSETS FROM DISCONTINUED OPERATIONS	13,510	17,851
Total Assets	$ 111,659,599	$ 108,788,053
EQUITIES AND LIABILITIES		
EQUITIES		
Patronage Capital	$ 20,191,184	$ 19,624,073
Other Equities	17,612,872	16,775,353
Accumulated Other Comprehensive Loss	(1,054,800)	(939,000)
Total Equities	36,749,256	35,460,426
LONG-TERM DEBT, NET OF CURRENT MATURITIES	61,444,321	57,803,895
ACCUMULATED PROVISION FOR PENSION AND POSTRETIREMENT BENEFIT OBLIGATIONS	2,814,001	2,588,578
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	3,460,000	2,516,000
Notes Payable	4,085,631	6,671,802
Accounts Payable	1,802,660	2,539,665
Other Current and Accrued Liabilities	1,069,398	983,163
Total Current Liabilities	10,417,689	12,710,630
DEFERRED CREDITS	234,332	224,524
Total Equities and Liabilities	$ 111,659,599	$ 108,788,053

See accompanying Notes to Consolidated Financial Statements.

ILLINOIS ELECTRIC COOPERATIVE
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CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Electric Revenues	$ 28,278,364	$ 27,395,907
Telecommunication Revenue	103	1,063
Other Operating Revenue	231,306	227,306
Total Operating Revenues	28,509,773	27,624,276
OPERATING EXPENSES		
Cost of Power	15,129,647	15,274,093
Distribution Expense – Operations	499,122	432,088
Distribution Expense – Maintenance	3,116,921	3,258,891
Consumer Account Expense	479,713	708,138
Sales Expense	633,541	595,761
Administrative and General Expense	2,006,736	2,165,783
Depreciation	3,587,273	2,898,293
Other Interest Expense	149,640	104,888
Other Deductions	1,173	21
Total Operating Expenses	25,603,766	25,437,956
OPERATING MARGINS BEFORE FIXED CHARGES	2,906,007	2,186,320
INTEREST ON LONG-TERM DEBT	1,583,587	1,336,148
OPERATING MARGINS AFTER FIXED CHARGES	1,322,420	850,172
G & T AND OTHER CAPITAL CREDITS	1,045,816	983,969
NET OPERATING MARGINS	2,368,236	1,834,141
NONOPERATING MARGINS		
Interest Income	80,561	92,195
Gain on Sale of Assets	121,905	131,485
Other Nonoperating Income	(359,903)	(308,409)
Total Nonoperating Margins	(157,437)	(84,729)
NET MARGINS FROM CONTINUING OPERATIONS	2,210,799	1,749,412
DISCONTINUED OPERATIONS		
Income from Operations of Discontinued Component	39	26,338
NET MARGINS FROM DISCONTINUED OPERATIONS	39	26,338
NET MARGINS	2,210,838	1,775,750
OTHER COMPREHENSIVE MARGINS		
Postretirement Benefit Plan:		
Net Actuarial Loss	(168,600)	(20,100)
Amortization of Loss	52,800	51,900
Other Comprehensive Margins	(115,800)	31,800
COMPREHENSIVE MARGINS	$ 2,095,038	$ 1,807,550

See accompanying Notes to Consolidated Financial Statements.

ILLINOIS ELECTRIC COOPERATIVE
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CONSOLIDATED STATEMENTS OF PATRONAGE CAPITAL AND OTHER EQUITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Patronage Capital	Other Equities	Accumulated Other Comprehensive Margins (Loss)	Total
BALANCE - DECEMBER 31, 2014	$ 20,090,145	$ 15,849,443	$ (970,800)	$ 34,968,788
Comprehensive Margins	849,840	925,910	31,800	1,807,550
Retirement of Capital Credits	(1,315,912)	-	-	(1,315,912)
BALANCE - DECEMBER 31, 2015	19,624,073	16,775,353	(939,000)	35,460,426
Comprehensive Margins	1,373,319	837,519	(115,800)	2,095,038
Retirement of Capital Credits	(806,208)	-	-	(806,208)
BALANCE - DECEMBER 31, 2016	$ 20,191,184	$ 17,612,872	$ (1,054,800)	$ 36,749,256

See accompanying Notes to Consolidated Financial Statements.

ILLINOIS ELECTRIC COOPERATIVE
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	$ 2,210,799	$ 1,749,412
Net Margins from Discontinued Operations	39	26,338
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation	3,587,273	2,898,293
Gain on Sale of Assets	(265,905)	(131,485)
G & T and Other Capital Credits	(1,045,816)	(983,969)
Accrued Pension and Postretirement Benefit Obligations	109,623	133,522
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(70,469)	170,541
Materials and Supply Inventory	484,391	(230,827)
Other Current and Accrued Assets	(466,728)	(17,202)
Deferred Debits	350,426	794,114
Increase (Decrease) in:		
Accounts Payable	(737,005)	1,098,453
Other Current and Accrued Liabilities	86,235	37,264
Deferred Credits	9,808	50,981
Net Cash Provided by Operating Activities	4,252,671	5,595,435
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and Acquisition of Plant	(4,537,144)	(13,709,474)
(Increase) Decrease in Other Assets and Investments	(1,426,458)	333,847
Cash Received from Retirement of Patronage	163,174	130,518
Issuance of Notes Receivable	(2,062,264)	(44,715)
Payments on Notes Receivable	85,199	110,394
Proceeds from Sale of Assets	131,040	201,901
Net Cash Used by Investing Activities	(7,646,453)	(12,977,529)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	7,200,000	8,630,986
Principal Payments on Long-Term Debt	(3,090,353)	(2,531,187)
Change in Notes Payable	(2,586,171)	5,449,638
Capital Credits Retired	(806,208)	(1,315,912)
Net Cash Provided by Financing Activities	717,268	10,233,525
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,676,514)	2,851,431
Cash and Cash Equivalents - Beginning of Year	4,675,724	1,824,293
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,999,210	$ 4,675,724
SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS		
Cash Paid for Interest	$ 1,718,700	$ 1,427,000
NONCASH FINANCING ACTIVITY		
Property and Equipment Acquired Under Capital Leases	$ 474,779	$ 397,605

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Illinois Electric Cooperative is organized to provide electric energy to consumers located in 10 counties in west central Illinois. The Cooperative's wholly owned subsidiary, Illinois Rural Telecommunication Co., provided Internet access to the general public within the same general geographic area as served by the Cooperative. As of January 1, 2011, all Internet services are provided by Illinois Electric Cooperative. Illinois Rural Telecommunication Co. itself has two wholly owned subsidiaries, Prather Oil Company and MidState Propane, LLC, which provided retail sales of propane to the general public, in the same geographical areas served by the Cooperative. On June 1, 2009, the Cooperative and its subsidiaries sold substantially all of the assets of the propane operations.

Principles of Consolidation

The consolidated financial statements include the accounts of Illinois Electric Cooperative (the Cooperative) and its wholly owned subsidiary Illinois Rural Telecommunication Co. (IRTC). All significant intercompany transactions and accounts have been eliminated from the consolidated financial statements.

Basis of Accounting

The Cooperative is subject to the accounting and reporting rules and regulations of the Rural Utilities Service (RUS). The Cooperative follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS. The accounting policies conform to U.S. generally accepted accounting principles as applied in the case of regulated electric utilities.

Rates charged to consumers are established by the board of directors.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Accordingly, actual results could differ from those estimates.

Electric Plant and Depreciation Procedures

Electric plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred in making improvements, replacements, and additions to the system, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining assets in efficient operating condition are charged to expense.

Provisions for depreciation of production (wind turbine and solar) and distribution plant and structures are computed on a straight-line basis employing a group method. The original costs of assets retired together with the costs of removal less salvage are charged to the related accumulated depreciation accounts.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Electric Plant and Depreciation Procedures (Continued)

Provisions for depreciation of general plant items are computed on a straight-line basis employing a group method, except for transportation equipment, power operated equipment, and certain office equipment, which are computed on a unit method. When assets are sold or retired, proceeds received upon disposition are compared with original cost less depreciation charged to date and gains or losses are recognized in the income statement, as appropriate.

Other Assets and Investments

Investments in Associated Organizations:

Investments in associated organizations include patronage capital, capital term certificates, and other investments. Patronage capital investments are stated at cost plus undistributed allocated equities from other cooperatives. Capital term certificates and other investments are carried at cost, which approximates market.

Notes Receivable and the Allowance for Loan Losses:

The allowance for loan losses (allowance) is an estimate of loan losses inherent in the Cooperative's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan losses are charged off against the allowance when the Cooperative determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

A loan is considered impaired when, based on current information and events, it is probable that the Cooperative will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Cooperative measures impairment based on the present value of the expected future cash flows discounted at the original contractual interest rate, except that as a practical expedient, it may measure impairment based on an observable market price, or the fair value of the collateral if collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

The Cooperative considers an allowance for each portfolio segment. These portfolio segments included economic development, energy resource conservation, and other notes receivable with risk characteristics described as follows:

Economic Development: Economic Development Loans Receivable generally possess a low amount of inherent risk as the loans are generally underwritten for construction and expansion of businesses within the Cooperative's geographical footprint. Borrowers are evaluated for credit quality and loans are generally collateralized with a first or second mortgage on real property.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets and Investments (Continued)

Notes Receivable and the Allowance for Loan Losses (Continued):

Energy Resource Conservation: Energy Resource Conservation loans possess a low amount of inherent risk as these are amounts loaned to consumers for energy saving devices installed on their premises. Borrowers are evaluated for credit quality and loans are generally collateralized with a first or second mortgage on real property.

Other Notes Receivable: Other Notes Receivable possess a low amount of inherent risk as these amounts are secured with a first mortgage on real property. These notes are related to sales of property executed in prior years.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least annually, management reviews the adequacy of the allowance, including consideration of the relevant risks of the portfolio, current economic conditions, and other factors. If management determines that changes are warranted based on those reviews, the allowance is adjusted.

Other Investments:

Marketable debt securities are classified as held-to-maturity investments and reported at amortized cost. The fair values of the marketable debt securities are estimated based on quoted market prices for those securities.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Cooperative considers short-term investments with maturities of three months or less to be cash equivalents. The following is a summary of these items at December 31:

	2016	2015
Cash - General	$ 788,263	$ 3,311,008
Short-Term Investments	1,210,947	1,364,716
Total Cash and Cash Equivalents	$ 1,999,210	$ 4,675,724

Deposits are maintained in financial institutions insured by FDIC insurance and approved by the board of directors. These deposits may, at times, exceed federally insured amounts.

Accounts Receivable, Net

The Cooperative provides an allowance for bad debts using the allowance method based on management's judgment. Sales are made on an unsecured basis. Payment is generally required within 30 days of the date of bill. Accounts more than 90 days past due are individually analyzed for collectibility. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. As of December 31, 2016 and 2015, the Cooperative has an allowance for uncollectible accounts totaling approximately $222,597 and $182,017, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are valued at the lower of cost or market using the average unit cost method.

Patronage Capital

The Cooperative operates on a nonprofit basis. Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to patrons on a patronage basis. To the extent they are not needed to offset current or prior deficits, nonoperating margins are recorded as appropriated margins.

Revenue and Power Cost Recognition

The Cooperative recognizes revenue based on estimates of revenues earned but not billed as of the end of each reporting period. Included in other current and accrued assets at December 31, 2016 and 2015 is $2,634,400 and $2,200,300, respectively, of accrued utility revenue.

Cost of power purchased is recognized on the basis of meter readings made by the power supplier on the last day of each month. There are no power costs incurred but not accrued as of December 31, 2016 and 2015.

Postretirement Benefits

The Cooperative provides certain health care benefits for all retired employees that meet eligibility requirements. The Cooperative’s share of the estimated costs that will be paid after retirement is generally being accrued by charges to expense over the employees’ active service period to dates they are fully eligible for benefits.

Accumulated Other Comprehensive Loss

Comprehensive margins (loss) and its components are required to be presented for each year a statement of operations is presented. The only components included in other comprehensive margins (loss) for the Cooperative are the net actuarial loss for its Postretirement Health Insurance Benefit Plan and the amortization of that net actuarial loss.

Income Taxes

The Cooperative has been granted tax exempt status under Section 501(c)(12) of the Internal Revenue Code (IRC).

IRTC utilizes an asset and liability approach to financial accounting and reporting for income taxes. Deferred income taxes are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Such differences relate primarily to the use of accelerated depreciation methods for income tax purposes as compared to the straight-line method for financial reporting and amortization of goodwill for income tax purposes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

IRTC files a consolidated tax return, which includes its subsidiaries. The consolidated income tax provision (benefit) is recorded by IRTC and is not allocated to its subsidiaries.

The Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2016 and 2015.

Presentation of Sales Taxes

The State of Illinois imposes a sales tax of 6.25% on the Cooperative's sales to nonexempt customers. The Cooperative collects that sales tax from customers and remits the entire amount to the state. The Cooperative's accounting policy is to exclude the tax collected and remitted to the State from revenues and costs of sales.

Fair Value Measurements

The Cooperative categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Subsequent to initial recognition, the Cooperative may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Cooperative adopted the policy to value certain financial instruments at fair value. The Cooperative has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

The following table presents the fair value hierarchy for the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Special Funds - Deferred Compensation	$ 79,901	$ -	$ -	$ 79,901

The following table presents the fair value hierarchy for the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Special Funds - Deferred Compensation	$ 59,778	$ -	$ -	$ 59,778

Subsequent Events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition of disclosure through April 25, 2017, the date the financial statements were available to be issued.

NOTE 2 ASSETS PLEDGED

Substantially all assets are pledged as security for the long-term debt to RUS, the Federal Financing Bank (FFB), CoBank, and concurrent mortgage notes to the National Rural Utilities Cooperative Finance Corporation (CFC).

NOTE 3 ELECTRIC PLANT IN SERVICE

Listed below are the major classes of the electric plant as of December 31:

	2016	2015
Intangible Plant	$ 9,169	$ 9,169
Production Plant	2,517,559	2,517,559
Equipment Under Capital Leases	2,082,230	1,826,348
Distribution Plant	73,491,753	69,589,831
General Plant	23,949,102	20,113,597
Electric Plant in Service	102,049,813	94,056,504
Construction Work in Progress	3,082,903	7,540,385
Total	$ 105,132,716	$ 101,596,889

Provisions for depreciation of production and distribution plant are made on a straight-line basis with composite rates as follows at December 31, 2016:

Production Plant	5%
Distribution Plant	2.36%

Provision for depreciation of equipment under capital leases has been computed on the unit basis using the straight-line method over the life of the leases.

Provision for depreciation of general plant has been computed on the unit basis using the straight-line method with a range of useful lives from 4 to 40 years.

NOTE 4 OTHER ASSETS AND INVESTMENTS

Investments in Associated Organizations

A summary of investments at December 31 is as follows:

	2016	2015
Patronage Capital Credits:		
Prairie Power, Inc.	$ 5,170,848	$ 4,258,420
National Rural Utilities Cooperative Finance Corporation (NRUCFC)	136,070	134,438
CoBank	315,642	292,673
National Rural Telecommunications Cooperative	392,724	469,116
Other	296,714	269,655
	6,311,998	5,424,302
Capital Term Certificates of the National Rural Utilities Cooperative Finance Corporation	788,412	789,147
Total Investment in Associated Organizations	$ 7,100,410	$ 6,213,449

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Investments in Associated Organizations (Continued)

The Cooperative is a voting member of Prairie Power, Inc. (PPI), a generation and transmission facility headquartered in Springfield, Illinois. These voting members or owners share margins realized by PPI, on the cooperative principle, based on power purchased. The investment or patronage capital earned by voting members is being returned annually as approved by the board of directors.

Investments in associated organizations include capital term certificates, loan term certificates, and zero term certificates of the National Rural Utilities Cooperative Finance Corporation (CFC). The capital term certificates bear interest at 5% and begin maturing in the year 2080; loan term certificates bear interest at 3% and begin maturing in the year 2020; and zero term certificates bear interest at 0% and began maturing in the year 2010.

Notes Receivable

Notes receivable at December 31 are as follows:

	2016	2015
Notes Receivable	$ 60,123	$ 66,452
Rural Economic Development Loans Receivable	2,170,490	277,110
Energy Resource Conservation Loans Receivable	93,616	114,958
Less: Current Portion of Notes Receivable	(296,138)	(82,886)
Total Other Investments	2,028,091	375,634
Less: Allowance for Loan Losses	(30,000)	(30,000)
Long-Term Notes Receivable	$ 1,998,091	$ 345,634

The Cooperative has notes receivable from third parties for sales of nonutility property. The portion to be received in the near term is shown as a current asset in the consolidated balance sheets. The notes are carried at cost and management considers them to be collectible.

Rural economic development loans receivable consists of a promissory note from businesses and governments in the Cooperative's service territory. These notes bear interest at a rate of 0%.

Energy resource conservation loans receivable consist of promissory notes from members for energy saving devices installed on their premises. The loans are due in varying amounts through 2023 and bear interest at a rate of 2%.

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Notes Receivable (Continued)

Changes in the allowance for loan losses and recorded investment in loans for the year ended December 31, 2016 are as follows:

	Economic Development	Energy Resource Conservation	Other Notes Receivable	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ -	$ 30,000	$ -	$ 30,000
Provision for Loan Losses	-	-	-	-
Loans Charged-Off	-	-	-	-
Recoveries of Loans Previously Charged-Off	-	-	-	-
Balance at End of Year	$ -	$ 30,000	$ -	$ 30,000
Ending Balance: Individually Evaluated for Impairment	$ -	$ -	$ -	$ -
Ending Balance: Collectively Evaluated for Impairment	$ -	$ 30,000	$ -	$ 30,000
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 2,170,490	$ -	$ 60,123	$ 2,230,613
Ending Balance: Collectively Evaluated for Impairment	$ -	$ 93,616	$ -	$ 93,616

The following table shows an aging analysis of the loan portfolio by time past due as of December 31, 2016:

	Accruing Interest				
	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total
Economic Development	$ 2,170,490	$ -	$ -	$ -	$ 2,170,490
Energy Resource Conservation	93,616	-	-	-	93,616
Other Notes Receivable	60,123	-	-	-	60,123
Total	$ 2,324,229	$ -	$ -	$ -	$ 2,324,229

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Notes Receivable (Continued)

Changes in the allowance for loan losses and recorded investment in loans for the year ended December 31, 2015 are as follows:

	Economic Development	Energy Resource Conservation	Other Notes Receivable	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ -	$ 30,000	$ -	$ 30,000
Provision for Loan Losses	-	-	-	-
Loans Charged-Off	-	-	-	-
Recoveries of Loans Previously Charged-Off	-	-	-	-
Balance at End of Year	$ -	$ 30,000	$ -	$ 30,000
Ending Balance: Individually Evaluated for Impairment	$ -	$ -	$ -	$ -
Ending Balance: Collectively Evaluated for Impairment	$ -	$ 30,000	$ -	$ 30,000
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 277,110	$ -	$ 66,452	$ 343,562
Ending Balance: Collectively Evaluated for Impairment	$ -	$ 114,958	$ -	$ 114,958

The following table shows an aging analysis of the loan portfolio by time past due as of December 31, 2015:

	Accruing Interest				
	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total
Economic Development	$ 277,110	$ -	$ -	$ -	$ 277,110
Energy Resource Conservation	114,958	-	-	-	114,958
Other Notes Receivable	66,452	-	-	-	66,452
Total	$ 458,520	$ -	$ -	$ -	$ 458,520

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Other Investments

Other Investments at December 31 consist of the following:

	2016	2015
Marketable Debt Securities - Held to Maturity	$ 1,249,783	$ 1,907,956
Investment in Prairie State Project	3,952,900	4,517,600
Total Other Investments	$ 5,202,683	$ 6,425,556

The Cooperative has invested funds in a power plant project along with nine other Prairie Power, Inc. electric distribution cooperatives. Construction was completed in 2012. In connection with this investment, the Cooperative has guaranteed an additional $4,404,660 of loans to fund the project.

The following is a summary of the amortized cost and fair value of investments classified as Held-to-Maturity as of December 31:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016				
U.S. Treasury Obligations	$ 246,566	$ 78,709	$ -	$ 325,275
U.S. Government Securities	139,714	75,698	-	215,412
Corporate Bonds	71,320	21,271	-	92,591
Brokered Certs. of Deposit	742,430	16,825	-	759,255
Trusts	49,753	29,251	-	79,004
Total	$ 1,249,783	$ 221,754	$ -	$ 1,471,537
December 31, 2015				
U.S. Treasury Obligations	$ 342,647	$ 93,237	$ -	$ 435,884
U.S. Government Securities	139,714	72,069	-	211,783
Corporate Bonds	131,066	19,426	(8,010)	142,482
Brokered Certs. of Deposit	1,244,776	12,978	(748)	1,257,006
Trusts	49,753	19,843	-	69,596
Total	$ 1,907,956	$ 217,553	$ (8,758)	$ 2,116,751

The carrying values and estimated fair values of debt securities at December 31, 2016, by contractual maturity, are shown below:

	Carrying Value	Fair Value
Due Within One Year	$ 296,654	$ 301,158
Due Within One Year Through Five Years	553,684	638,274
Due Within Five Years Through Ten Years	126,818	136,119
Due in More Than Ten Years	272,627	395,986
Total	$ 1,249,783	$ 1,471,537

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Other Investments (Continued)

Management evaluates securities for other-than-temporary impairment when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Cooperative to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2016, the unrealized losses on securities relate principally to current interest rates for securities of similar type. As management has the ability to hold the securities until maturity, no declines are deemed other-than-temporary.

NOTE 5 OTHER CURRENT AND ACCRUED ASSETS

The following is a summary of other current and accrued assets at December 31:

	2016	2015
Accrued Utility Revenue	$ 2,634,400	$ 2,200,291
Prepaid Expenses	122,418	108,673
Interest Receivable	9,616	10,620
Other	25,178	5,300
Total Other Current and Accrued Assets	$ 2,791,612	$ 2,324,884

NOTE 6 DEFERRED DEBITS

Following is a summary of amounts recorded as deferred debits as of December 31:

	2016	2015
Past Service Pension Cost	$ 153,033	$ 193,215
Prepayment of Stranded Costs on Wholesale Power Contract	-	209,662
NRECA RS Pension Plan Prepayment	860,187	996,006
Wind Turbine Project	1,664	42,743
Association Dues	56,636	90
Other Deferred Debits	30,525	10,755
Total Deferred Debits	$ 1,102,045	$ 1,452,471

The past service pension costs are amortized on the straight-line basis, over future periods.

NOTE 6 DEFERRED DEBITS (CONTINUED)

The Cooperative is amortizing the prepayment of the stranded costs from Soyland Power Cooperative, Inc. (Soyland), now PPI, over the life of the all requirements power contract with PPI, on a straight-line basis. Amortization expense of $209,662 and $501,600 is reflected in the "Cost of Power" line item in the consolidated statements of operations for the years ended December 31, 2016 and 2015, respectively.

NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES

The following is a summary of patronage capital assignable and assigned at December 31:

	2016	2015
Assignable	$ 1,373,319	$ 849,840
Assigned to Date	18,817,865	18,774,233
Patronage Capital - End of Year	$ 20,191,184	$ 19,624,073

The mortgage provisions restrict the retirement of patronage unless after retirement, the capital of the Cooperative equals at least 30% of the total assets of the Cooperative; provided, however, that retirements can be made if such distributions do not exceed 25% of the preceding year's margins. No distribution can be made if there are unpaid, when due, any installations of principal or interest on the notes.

Distributions to estates are made at the request of the estates. In addition to estates, émigrés and surviving spouses of joint memberships are retired upon request within annual budgets set by the board of directors and in the order in which they are received.

Other equities consisted of the following as of December 31:

	2016	2015
Memberships	$ 114,840	$ 114,840
Donated Capital	25,928	25,928
Unclaimed Capital Credits	18,292	18,292
Nonoperating Margins - Subsidiary	(766,658)	(859,878)
Appropriated Margins	18,220,470	17,476,171
Total	$ 17,612,872	$ 16,775,353

NOTE 8 LONG-TERM DEBT

The following is a summary of outstanding long-term debt as of December 31:

	2016	2015
RUS Mortgage Notes -		
.10%-5.00% Notes Maturing Through 2039	$ 14,110,983	$ 14,685,363
NRUCFC Secured Promissory Notes -		
Variable Rate Notes, 2.90% Due 2022	268,155	306,919
FFB Secured Mortgage Notes -		
Variable Rate Notes, .21%-.47%, Due 2016-2017	11,569,263	11,569,263
Fixed Rate Notes, 1.35%-5.33% Maturing 2018-2046	22,464,914	21,158,285
CoBank Secured Promissory Notes -		
Fixed Rate Notes, 2.20%-4.62%, Due 2016-2023	13,361,882	9,294,127
Rural Economic Development Grant	94,559	94,559
Rural Economic Development Loan	2,083,278	2,177,452
Capital Lease Obligations	951,287	1,033,927
Total Long-Term Debt	64,904,321	60,319,895
Current Maturities	(3,460,000)	(2,516,000)
Total Long-Term Debt (Net of Current Maturities)	$ 61,444,321	$ 57,803,895

As of December 31, 2016, current maturities of long-term debt outstanding for the next five years are as follows:

Year Ending December 31,	Amount
2017	$ 3,460,000
2018	3,308,000
2019	3,188,000
2020	3,182,000
2021	3,116,000

As of December 31, 2016, the Cooperative and IRTC have approved but unadvanced loan funds of $22,800,000 and $1,500,000 with FFB and CoBank.

The Cooperative leases various equipment under capital leases expiring in various years through 2020. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over their related lease terms. Depreciation of assets under capital leases is included in depreciation for the years ended December 31, 2016 and 2015.

Equipment under capital leases had a cost and accumulated depreciation of $2,082,230 and $1,130,943 and $1,826,348 and $792,421 as of December 31, 2016 and 2015, respectively.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Minimum future lease payments under capital leases as of December 31, 2016 for each of the next five years and in the aggregate are:

Year Ending December 31,		Amount
2017	$	480,619
2018		296,628
2019		128,930
2020		40,705
2021		4,405
Total Minimum Lease Payments		951,287
Less: Amount Representing Interest		-
Present Value of Minimum Lease Payments	$	951,287

NOTE 9 NOTES PAYABLE

The Cooperative has a perpetual line of credit with NRUCFC in the amount of $1,500,000. Borrowings on this line of credit are due on demand. Interest rates vary with the prime rate as published in the Wall Street Journal. At December 31, 2016 and 2015, the interest rate on this line of credit was 2.50% and 2.90%, respectively. The Cooperative had outstanding balances of $-0- and $1,000,000 at December 31, 2016 and 2015, respectively.

In addition to the above line of credit, the Cooperative has a line of credit with CoBank for $6,000,000. At December 31, 2016 and 2015, the interest rate on this line of credit was 3.07% and 2.53%, respectively. The line of credit matures on September 30, 2017. The Cooperative had outstanding balances of $4,085,631 and $5,671,802 at December 31, 2016 and 2015, respectively.

NOTE 10 DEFERRED CREDITS

A summary of deferred credits at December 31 is as follows:

		2016		2015
Consumers' Energy Prepayments	$	234,332	$	212,224
Other Deferred Credits		-		12,300
Total	$	234,332	$	224,524

NOTE 11 POSTRETIREMENT BENEFIT OBLIGATIONS OTHER THAN PENSIONS

The Cooperative maintains a policy that provides health care benefits for substantially all retired employees who have met the plan's years of service until age 65. The Cooperative's liability for these unfunded benefits was revalued as of December 31, 2016 and reported on the balance sheet as Accumulated Provision for Pension and Benefits, which also includes $79,901 and $59,778 of Deferred Compensation as of December 31, 2016 and 2015, respectively.

As an employer that sponsors a defined benefit postretirement plan, the Cooperative reports the current economic status (the over-funded or under-funded status) of the plan in its statement of financial condition, measures the plan assets and plan obligations as of the statement of financial condition date, and includes disclosures about the plan.

Obligations and Funded Status:	December 31, 2016	December 31, 2015
Accumulated Postretirement Benefit Obligation	$ 2,734,100	$ 2,528,800
Fair Value of Plan Assets	-	-
Unfunded Accumulated Postretirement Benefit Obligation	$ 2,734,100	$ 2,528,800
Employer Contributions	$ 147,600	$ 117,800
Plan Participant Contributions	-	-
Net Benefits Paid	$ 147,600	$ 117,800
Amounts Recognized in the Balance Sheet in		
Accumulated Provisions for Pension and Benefits	$ 2,734,100	$ 2,528,800

Components of Net Postretirement Benefit Cost and Other Amounts Recognized in Other Comprehensive Margins	December 31, 2016	December 31, 2015
Service and Interest Cost	$ 184,300	$ 179,300
Amortization of Deferred Charge	52,800	51,900
Change in Net Loss		
Recognized in Other Comprehensive Margins	115,800	(31,800)
Net Periodic Benefit Cost	$ 352,900	$ 199,400

Assumptions Used to Determine the Net Postretirement Benefit Cost		
Weighted Average Discount Rate for Obligations	3.88%	3.95%
Health Care Cost Trend Rate Assumed for Next Year	6.50%	7.00%
Rate to Which the Cost Trend Rate is Assumed to Decline	5.00%	5.00%
Year that the Rate Reaches the Ultimate Trend Rate	2020	2020

NOTE 11 POSTRETIREMENT BENEFIT OBLIGATIONS OTHER THAN PENSIONS (CONTINUED)

The following postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year	Amount
2017	$ 138,300
2018	147,300
2019	130,800
2020	125,600
2021	111,200
2022 - 2026	749,800

The Cooperative has a net loss in the amount of $1,054,800. The estimated related net loss that will be amortized over the next fiscal year is $65,100.

NOTE 12 PENSION PLANS

Narrative Description

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the IRC. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information

The Cooperative's contributions to the RS Plan in 2016 and in 2015 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan in 2016 and 2015 as follows:

	2016	2015
Past Service Pension Cost	$ 40,182	$ 40,182
Current Payments to Plan	493,011	423,888
Total	$ 533,193	$ 464,070

There have been no significant changes that affect the comparability of 2016 and 2015 contributions.

NOTE 12 PENSION PLANS (CONTINUED)

Plan Information (Continued)

For the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was between 80% funded on January 1, 2016 and over 80% funded at January 1, 2015 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative’s share, as of January 1, 2013, of future contributions required to fund the RS Plan’s unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative’s annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns, and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period.

In addition to the above retirement plan, employees of the Cooperative are eligible for a 401(k) savings plan. The Cooperative makes a contribution of 6.2% of the eligible employees’ salary into this plan. The total contribution made by the Cooperative in 2016 and 2015 was $224,921 and $206,390, respectively.

NOTE 13 INCOME TAXES

No provision for income taxes was recorded for the years ended December 31.

Deferred tax assets are presented in the balance sheet as follows:

	2016	2015
Net Operating Loss Carryforwards	$ 13,000	$ 55,000
Valuation Allowance	(13,000)	(55,000)
Deferred Tax Assets, Net	$ -	$ -

NOTE 14 COMMITMENTS AND CONTINGENCIES

Purchase Commitment

Under its wholesale power agreements, the Cooperative is committed to purchase its electric power and energy requirements from Prairie Power, Inc. through 2047. The rates are subject to periodic review.

Concentration of Credit

The Cooperative extends credit to its consumers on terms no more favorable than the standard terms of the industry it serves. The Cooperative's customers are located in west central Illinois, and may be dependent on economic returns from farm crop and livestock production in that area. The Cooperative's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

Major Consumer

For the years ended December 31, 2016 and 2015, one group of accounts under common ownership comprised approximately 10% and 8%, respectively, of operating revenues.

NOTE 15 DISCONTINUED OPERATIONS

On June 1, 2009, the Cooperative and its subsidiaries sold the assets of the propane operations, primarily held by Prather Oil Company and MidState Propane, LLC.

Assets of the discontinued operations are comprised of the following at December 31:

	2016	2015
Investments in Associated Organizations	$ 13,510	$ 17,851