

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Indiana Municipal Power Agency's (IMPA or the Agency) consolidated financial performance 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 consolidated financial statements and the accompanying notes.

Consolidated Financial Statements

The consolidated financial statements presented herein include all of the activities of IMPA and its affiliate ISC, Inc. (ISC). 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. IMPA has implemented all Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements. ISC is a not-for-profit service corporation formed by IMPA to provide non-power supply services to IMPA members and other municipal entities. ISC's revenues and expenses are reported in IMPA's consolidated statements of revenues, expenses and changes in net assets in other revenues and other non-operating expenses, respectively.

The consolidated statements of revenues, expenses and changes in net assets and cash flows present information about IMPA's business activities. The consolidated balance sheets report year-end assets, liabilities and net assets 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. Other factors to consider are the Agency's wholesale electric rates and its ability to maintain or exceed the debt service coverage levels required by its bond resolution.

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Operating revenues, which are composed of sales to municipalities and other revenues, increased approximately \$7.5 million (2.0%). Sales to municipalities increased approximately \$24.1 million (6.9%) in 2010 compared to 2009. The 2010 increase in sales to municipalities was primarily a result of increased unit sales of electricity, 5.2% increase in energy units and 3.8% increase in demand units, and an increase in average rates charged to members of approximately 1.6%. Other revenues declined approximately \$16.6 million (64.1%) in 2010 compared to 2009. During 2010, IMPA had lower quantities of excess power available for off-system sales due to higher member energy and demand needs.

Operating expenses increased approximately \$0.9 million (0.3%) during 2010 compared to 2009. Purchased power, fuel and production expenses declined approximately \$9.0 million (3.0%) due primarily to lower purchased power costs in 2010. Other operating expenses increased approximately \$8.8 million (24.6%). The primary driver of higher other operating expenses in 2010 was increased maintenance costs. In late 2010, Gibson Unit 5 experienced an unplanned outage. While Gibson Unit 5 was down, the unit's owners, including IMPA, elected to perform a portion of the maintenance on the unit that was previously scheduled to be performed in 2011 and 2013. As a result, maintenance expenses increased approximately 60% in 2010 over 2009 levels.

Non-operating expenses decreased approximately \$3.5 million (18.9%), due primarily to lower interest costs on IMPA's outstanding bonds.

Higher than normal summer temperatures resulted in record energy sales of 6.1 million megawatt hours and a new system peak of 1,226 megawatts for IMPA in 2010. The combination of higher energy and demand unit sales, lower other operating revenues, slightly higher net operating expenses, lower non-operating expenses, and an increase in net income of \$10.1 million (288.6%) over 2009 resulted in an increase in IMPA's average cost per kilowatt hour of 1.6%, from 6.03 cents in 2009 to 6.125 cents in 2010.

Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Assets

(in millions)

	2010	2009
Sales to municipalities (used as security for revenue bonds)	\$ 374.4	\$ 350.3
Other revenues	9.3	25.9
Operating Revenues	383.7	376.2
Purchased power, fuel, and production expense	291.7	300.7
Transmission and local facilities	18.8	17.7
Other operating expenses	44.6	35.8
Operating Expenses	355.1	354.2
Operating Income	28.6	22.0
Interest expenses and other debt related expenses	18.8	23.4
Interest income	(6.0)	(5.0)
Other non-operating expenses	2.2	0.1
Non-Operating Expenses	15.0	18.5
Net Income	13.6	3.5
Net Assets at Beginning of Year	141.1	137.6
Net Assets at End of Year	\$ 154.7	\$ 141.1

Consolidated Balance Sheets

Utility plant, net, has increased approximately \$244.2 million, primarily from the construction of both the Trimble County Unit 2 and Prairie State Projects.

On October 14, 2010, IMPA closed on the issuance of approximately \$123.6 million of power supply system revenue bonds (2010 A Bonds) and approximately \$20.2 million of power supply system refunding revenue bonds (2010 B Bonds). Proceeds of the 2010 A Bonds are being used for the construction of the Prairie State Project. Proceeds of the 2010 B Bonds were used to refund the 1999 A Bonds, which were previously callable.

Net assets increased approximately \$13.6 million, reflecting IMPA's 2010 net income. The major changes in components of net assets include: capital additions net of disposals of approximately \$259.5 million; depreciation expense of approximately \$15.5 million; and principal payments on revenue bonds of \$22.9 million.

Condensed Consolidated Balance Sheets

(in millions)

	2010	2009
Utility plant, net	\$ 1,058.4	\$ 814.2
Cash and investments	351.1	473.4
Other current assets	77.3	68.9
Deferred costs	63.6	71.9
Total Assets	\$ 1,550.4	\$ 1,428.4
Invested in capital assets, net of related debt	\$ (247.7)	\$ (391.6)
Restricted	258.2	386.2
Unrestricted	144.2	146.5
Total Net Assets	154.7	141.1
Non-current liabilities	1,290.7	1,155.8
Current liabilities	105.0	131.5
Total Liabilities	1,395.7	1,287.3
Total Net Assets and Liabilities	\$ 1,550.4	\$ 1,428.4

Debt Service Coverage

Debt service coverage for 2010 was 129.6%. The Agency's bond resolution requires debt service coverage to be at least 110%.