

CONSOLIDATED FINANCIAL STATEMENTS' NOTES

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Indiana Municipal Power Agency (IMPA or the Agency) is a body corporate and politic and a political subdivision of the State of Indiana. IMPA was created in June of 1980 by a group of municipalities for the purpose of jointly financing, developing, owning and operating electric generation and transmission facilities appropriate to the present and projected energy needs of its participating members. IMPA sells power to its members under long-term power sales contracts. The members resell the power to retail customers within their respective municipal service territories. IMPA's owned and member-dedicated generating capacity is 818 megawatts (MW) or 71.3% of non-coincident peak demand. The remainder of IMPA's power is purchased from other utilities under long-term contracts with varying terms and expiration dates. Power is delivered to members through: an integrated transmission system known as the Joint Transmission System (JTS), jointly-owned by IMPA, Duke Energy Indiana, Inc. (DEI), Duke Energy Ohio, Inc. (DEO), and Wabash Valley Power Association (WVPA); leasing arrangements with member utilities; and transmission service arrangements with other utilities and regional transmission organizations.

On January 1, 2008 and 2009 IMPA began serving the City of Jasper (Jasper) and the Town of Argos (Argos), respectively. Jasper accounted for approximately 6% of IMPA's 2009 and 2008 loads and Argos accounted for approximately .4% of IMPA's 2009 load. IMPA entered into power sales contracts with Jasper and Argos to supply all power and energy used in the operation of their respective municipal electric systems, similar to IMPA's existing power sales contracts. IMPA serves 52 Indiana cities and towns and one Ohio village.

ISC, Inc. (ISC) was created by the Agency as a not-for-profit corporation to provide cost-effective services beyond power supply and transmission to members and other municipal utilities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Agency and its affiliate, ISC. All significant intercompany account balances and transactions have been eliminated in consolidation.

Basis of Presentation

The Agency substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. IMPA 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

IMPA provides power to its communities through ownership of utility plant, which includes: (1) an undivided 24.95% ownership in the 625 MW Gibson Unit 5 generating facility (Gibson Unit 5) acquired from PSI (now known as DEI), a wholly-owned subsidiary of Duke Energy Corp., in January of 1983; (2) an undivided 12.88% ownership in the 514 MW Trimble County Unit 1 generating facility (Trimble County Unit 1) acquired from Louisville Gas and Electric Company (LG&E), a wholly-owned subsidiary of E.ON US LLC, on February 1, 1993; and (3) seven wholly-owned combustion turbines and associated facilities aggregating 419 MW (two 41 MW units placed in service in 1992 and one 85 MW unit placed in service in 2004 located in Anderson, Indiana; two 41 MW units placed in service in 1992 located near Richmond,

Indiana; and two 85 MW units located in Indianapolis, Indiana placed in service in 2000). Crawfordsville, Peru, Rensselaer and Richmond (the Generating Members) also dedicate the capacity of their utility plant to IMPA, providing IMPA with an additional 177 MW of power. IMPA paid the Generating Members \$13.3 and \$32.6 million for capacity and generation in 2009 and 2008, respectively.

Utility plant is recorded at cost including capitalized interest during construction and a proportionate share of overhead costs. During 2009 and 2008, IMPA capitalized interest of \$33.8 and \$17.9 million, respectively, into utility plant. Construction overhead costs include salaries, payroll taxes, fringe benefits and other expenses. The original cost of property replaced or retired, less salvage, is charged to accumulated depreciation. Depreciation is recorded over the estimated useful lives of the utility plant by using the straight-line method. The effective composite depreciation rate on utility plant is approximately 3% in both 2009 and 2008.

Construction work in progress includes development and construction costs for the Trimble County Unit 2 Project and the Prairie State Project as well as other Utility Plant capital expenditures under construction at December 31, 2009 and 2008. Construction work in progress for the Prairie State Project also includes coal reserves.

The Agency capitalizes fixed assets with an original cost greater than \$2,500, except for jointly-owned utility plant. The jointly-owned utility plant additions are capitalized based on the policies defined by DEI for Gibson Unit 5 and by LG&E for Trimble County Unit 1.

Funds

IMPA's Master Power Supply System Revenue Bond Resolution (the Resolution) requires the creation and maintenance of certain funds and accounts. The Restricted Funds under the Resolution are the Debt Service Fund and the Debt Service Reserve Fund. The Resolution also allows for the creation and maintenance of the Rate Stabilization Account and the Reserve and Contingency Fund, the use of which is restricted by Board resolution. The Construction and Capitalized Interest Funds include restricted proceeds from 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

IMPA considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted and Unrestricted Investments

IMPA classifies investments in U.S. Treasury notes and bonds, U.S. Government agencies and commercial paper as available for sale. In accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, non-transferable investment contracts are recorded at amortized cost.

Fair Value Measurements

IMPA uses fair value to measure certain financial instruments, with related unrealized gains or losses generally affecting future recoverable costs (see Future Recoverable Costs). The fair value of a financial instrument is the amount at which an investment could be exchanged in a current transaction between willing parties.

Fuel Stock and Material Inventory

Fuel stock and materials and supplies are valued at average cost. The cost of fuel and materials used in production are expensed as recovered through revenues.

Rates

IMPA sets rates in accordance with the Resolution. The Resolution requires the establishment of rates that, together with other revenues, are reasonably expected to pay IMPA's operating costs (excluding depreciation and amortization), and at least 110% of the Agency's aggregate debt service. IMPA's debt service requirements are designed to be relatively equal over the life of the bonds to help provide stable rates to the communities IMPA serves. Rates are not subject to state or federal regulation. The debt service included in rates provides for full cost recovery of the utility plant assets over a period not exceeding the utility plant useful lives.

Revenues are recognized on an accrual basis when energy is delivered, while the communities are billed using budgeted rates. Differences between the accrued rate and the billed rate are collected from or returned to the communities via the IMPA tracker in subsequent periods. The amount to be returned to members at December 31, 2009 was \$.7 million, and the amount to be collected from the communities at December 31, 2008 was \$21.8 million. These regulatory liability and asset amounts are included in accrued liabilities and other current assets in the consolidated balance sheets at December 31, 2009 and 2008, respectively.

Future Recoverable Costs

As a rate regulated entity, IMPA's consolidated financial statements reflect the actions of the Board of Commissioners 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 (ASC) 980, *Regulated Operations (ASC 980)*.

Under the terms of the power sales contracts, costs in excess of the amounts currently billable to the communities are to be recovered from future revenues by setting rates sufficient to provide funds for the related debt service requirements. These costs, which primarily include non-cash charges such as depreciation and amortization expenses in excess of current principal payments, net of net unrealized gain on investments, will be recovered over the lives of the bonds.

If rate recovery of deferred costs is no longer probable, whether due to competition or regulatory action, ASC 980 may no longer apply to IMPA's 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 IMPA's current regulatory environment, management believes that the Agency's future recoverable costs are probable of future recovery.

Regulatory Assets and Liabilities

Regulatory assets include the depreciation and amortization expenses in excess of current principal payments included in future recoverable costs and unamortized costs of reacquired debt. Future recoverable costs included in regulatory assets were \$50.9 and \$55.4 million at December 31, 2009 and 2008, respectively. Unamortized costs of reacquired debt include premiums paid to refund bonds, unamortized bond issuance costs of refunded bonds and any unamortized premiums received or discounts paid on the refunded bonds. These unamortized costs are amortized over the lives of the respective refunding bonds. At December 31, 2009 and 2008, the unamortized balances outstanding were approximately \$10.4 and \$12.7 million, respectively. Regulatory liabilities include the net unrealized gain on investments included in future recoverable costs and contingency reserve. Future recoverable costs included in regulatory liabilities were \$.8 and \$2.6 million at December 31, 2009 and 2008, respectively. IMPA has established a contingency reserve for the Agency's transmission and local facilities. At December 31, 2009 and 2008, regulatory liabilities included approximately \$3.1 and \$2.8 million, respectively, for this contingency reserve.

Bond Issuance Costs

Certain costs associated with the issuance of debt and advance refunding have been deferred and are being amortized over the life of the respective bonds. Unamortized debt issuance costs total \$10.6 and \$9.3 million at December 31, 2009 and 2008, respectively.

Operating 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 IMPA serves. All other expenses are classified as non-operating expenses.

ISC

ISC's revenues and expenses are reported as other revenues and other operating expenses, respectively.

Regional Transmission Organizations (RTOs)

IMPA is a transmission owning member of the Midwest Independent System Operator (Midwest ISO) and a transmission dependent utility of both the Midwest ISO and PJM Interconnection, LLC (PJM). The Midwest ISO schedules, manages and oversees operational control of the JTS.

The Midwest ISO and PJM are independent organizations whose purposes are to ensure the reliability of their respective integrated, regional electrical transmission systems, to facilitate a regional wholesale marketplace, to provide non-discriminatory access to the transmission system and to maintain and improve electric system reliability.

Income Taxes

IMPA, as a political subdivision of the State of Indiana, is exempt from federal and state income taxes. ISC is exempt from income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3).

Northern Illinois Municipal Power Agency (NIMPA)

IMPA has been hired through a management services agreement to provide general management and administrative services for NIMPA, a participant in the Prairie State Project.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the consolidated financial statements 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 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 Agency does not expect the adoption of GASBS No. 53 to have a material impact on the financial statements.

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC 105), which identifies the sources of accounting principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. ASC 105 is effective for financial statements issued for periods ending after September 15, 2009. While the adoption of the ASC did not have an impact on the accounting within the consolidated financial statements, the ASC did impact various references to accounting literature contained within the Notes.

2. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2009 and 2008, was as follows:

[in thousands]

2009	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Utility plant in service	\$ 507,558	\$ 1,370	\$ 2,925	\$ (5,362)	\$ 506,491
Construction work in progress	326,040	211,465	(2,925)	-	534,580
Total Capital Assets	833,598	212,835	-	(5,362)	1,041,071
Less accumulated depreciation for utility plant in service	(212,655)	(15,772)	-	1,572	(226,855)
	\$ 620,943	\$ 197,063	\$ -	\$ (3,790)	\$ 814,216

2008	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Utility plant in service	\$ 482,762	\$ 8,276	\$ 17,346	\$ (826)	\$ 507,558
Construction work in progress	168,488	174,898	(17,346)	-	326,040
Total Capital Assets	651,250	183,174	-	(826)	833,598
Less accumulated depreciation for utility plant in service	(198,063)	(15,068)	-	476	(212,655)
	\$ 453,187	\$ 168,106	\$ -	\$ (350)	\$ 620,943

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

A Board policy governs IMPA's investments and deposits. At December 31, 2009 and 2008, cash and equivalents include money market investments. IMPA invests principally in U.S. Treasury notes and bonds, U.S. Government agencies, commercial paper and non-transferable investment contracts.

The Agency has three investment agreements. A portion of the Debt Service Fund was invested in a forward delivery agreement that matured on December 31, 2008. A portion of the Debt Service Reserve Fund is invested in a guaranteed investment contract (GIC). The GIC is evidenced by a repurchase agreement with the Trustee, The Bank of New York Company. The GIC extends to 2016 and allows the Trustee to request immediate remittance of the funds for purposes set forth in the Resolution. The Construction Fund for Trimble County Unit 2 Project is invested in a flexible draw investment agreement. Funds from the flexible draw investment agreement will be withdrawn as needed for the construction of Trimble County Unit 2 Project. The flexible draw investment contract matures in 2010. As required by the Resolution, the Trustee has custody of collateral and securities. All of the Agency's investments are insured, registered or held by the Trustee in the Agency's name.

During 2009 and 2008, IMPA recorded unrealized losses of (\$1,756,000) and unrealized gains of \$1,177,000, respectively. To the extent any unrealized gains or losses are realized in the future, those realized gains or losses are refundable or recoverable through IMPA's rate-making methodology. Accordingly, any unrealized losses or gains at December 31, 2009 and 2008 have been included in regulatory assets or liabilities as future recoverable costs on IMPA's consolidated balance sheets (see note 1).

The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of the instruments. All investment contracts are recorded at amortized cost as they are not transferable instruments. The disclosed fair value of the investment contracts represents their liquidation values as of December 31, 2009 and 2008.

At December 31, 2009 and 2008, the carrying value and the estimated fair values of the Agency's cash, cash equivalents and investments were as follows:

[in thousands]

	2009		2008	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Long-Term Investments:				
Restricted:				
Investment Contracts	\$ 39,905	\$ 39,905	\$ 68,530	\$ 68,530
U.S. Government Agencies	100,522	101,168	28,580	30,788
Total Restricted	140,427	141,073	97,110	99,318
Unrestricted:				
U.S. Government Agencies	30,947	30,835	-	-
Total Long-Term Investments	\$ 171,374	\$ 171,908	\$ 97,110	\$ 99,318
Cash and Cash Equivalents:				
Restricted	\$ 262,464	\$ 262,464	\$ 283,138	\$ 283,138
Unrestricted	22,085	22,085	22,745	22,745
Total Cash and Cash Equivalents	\$ 284,549	\$ 284,549	\$ 305,883	\$ 305,883
Short-Term Investments:				
Restricted:				
U.S. Government Agencies	\$ 16,688	\$ 17,002	\$ 15,840	\$ 16,237
Unrestricted:				
U.S. Government Agencies	-	-	-	-
Total Short-Term Investments	\$ 16,688	\$ 17,002	\$ 15,840	\$ 16,237
Total	\$ 472,611	\$ 473,459	\$ 418,833	\$ 421,438

U.S. Government agencies consist solely of mortgage-back securities which mature in less than five years.

4. NET ASSETS

At December 31, 2009 and 2008, the Agency's net assets can be broken down into the following components:

[in thousands]

	2009	2008
Invested in capital assets, net of related debt	\$ (391,626)	\$ (364,953)
Restricted for debt service	43,026	23,032
Restricted for debt service reserve	93,330	72,707
Restricted for bond financed construction projects and capitalized interest	232,222	255,749
Restricted by Board resolution	17,596	17,678
Unrestricted	146,522	133,446
	\$ 141,070	\$ 137,659

Debt service is comprised of current principal payments and interest due on long-term debt payable on the first business day of the subsequent year. The Resolution restricts the debt service, the debt service reserve and the bond financed construction projects and capitalized interest accounts. Additionally, certain accounts are restricted by Board resolution, including the rate stabilization account. For further discussion of restricted by Board resolution, see note 1.

5. HEDGING TRANSACTIONS

During 2009 and 2008, IMPA entered into bilateral cash flow derivative contracts for the purpose of limiting the exposure to changes of purchased power costs in future years. At December 31, 2009 and 2008, the fair value of the contracts resulted in an unrealized loss recorded of \$.4 and \$1.0 million in the consolidated financial statements, respectively. To the extent any gains or losses are realized, those realized gains or losses are refundable or recoverable through IMPA's rate-making methodology. Accordingly, the 2009 and 2008 derivative losses have been included in regulatory assets as future recoverable costs on IMPA's consolidated balance sheets (see note 1).

Bilateral structured transactions utilize pricing models that are widely accepted in the energy industry to measure fair value. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability.

6. LONG-TERM REVENUE BONDS

IMPA has issued Power Supply System Revenue Bonds to finance its acquisition and construction of utility plant. Long-term revenue bonds issued and outstanding at December 31, 2009 and 2008, consist of the following:

[in thousands]

Bond Series	Interest Rates	Due Date January 1,	Optional Redemption Date January 1,	2009	2008
1993 Series B	5.500–6.000%	2010 to 2016		\$ 120,440	\$ 135,360
1998 Series A	Variable	2018		-	37,000
1999 Series A	5.300%	2023		22,775	22,775
2002 Series A	4.250–5.500%	2010 to 2023	2012	53,180	55,760
2002 Series B	5.000–5.250%	2010 to 2028	2013	79,555	82,850
2004 Series A	4.375–5.000%	2024 to 2032	2015	43,840	43,840
2006 Series A	4.500–5.000%	2019 to 2032	2016	171,205	171,205
2007 Series A	4.500–5.000%	2023 to 2042	2017	403,575	403,575
2007 Series B	5.800%	2022		20,125	20,125
2009 Series A	3.000–5.000%	2010 to 2029	2019	32,590	-
2009 Series B	5.250–6.000%	2024 to 2039	2019	194,400	-
2009 Series C	7.350%	2019 to 2024		16,035	-
				1,157,720	972,490
Less current maturities				(22,900)	(20,795)
Long-term revenue bonds				1,134,820	951,695
Unamortized premium, net				11,122	13,406
				\$ 1,145,942	\$ 965,101

The 1993 Series B Bonds, the 2007 Series B Bonds and 2009 Series C Bonds are non-callable. The 1998 Series A Bonds and the 1999 Series A Bonds are currently callable at a redemption price of 100%. The 2009 Series A Bonds, subject to mandatory sinking fund redemption on January 1, 2030 to 2034, totaling approximately \$60.9 million are callable on or after January 1, 2014 at a redemption price of 100%. All other bonds are callable on or after the optional redemption date at a redemption price of 100%.

Debt service requirements based on contractual maturities at December 31, 2009 were as follows:

[in thousands]

	Principal	Interest
2010	\$ 22,900	\$ 56,533
2011	24,340	59,594
2012	25,730	58,246
2013	27,190	56,797
2014	28,780	55,257
2015–2019	93,755	256,865
2020–2024	135,875	229,361
2025–2029	175,670	189,586
2030–2034	211,275	141,059
2035–2039	272,625	79,717
2040–2042	139,580	14,185
	\$ 1,157,720	\$ 1,197,200

Long-term revenue bonds activity for the years ended December 31, 2009 and 2008, was as follows:

[in thousands]

2009	Beginning Balance	Additions	Reductions	Reclassification (see Note 7)	Ending Balance
Long-term revenue bonds	\$ 972,490	\$ 243,025	\$ (20,795)	\$ (37,000)	\$ 1,157,720
Less:					
Current maturities	(20,795)	20,795	(22,900)	-	(22,900)
Unamortized premium, net	13,406	(1,769)	(515)	-	11,122
	\$ 965,101	\$ 262,051	\$ (44,210)	\$ (37,000)	\$ 1,145,942

2008	Beginning Balance	Additions	Reductions	Ending Balance
Long-term revenue bonds	\$ 992,160	\$ -	\$ (19,670)	\$ 972,490
Less:				
Current maturities	(19,670)	19,670	(20,795)	(20,795)
Unamortized premium, net	14,043	-	(637)	13,406
	\$ 986,533	\$ 19,670	\$ (41,102)	\$ 965,101

Debt Service Coverage

The Resolution contains covenants that include collection of rates equal to at least 110% of the following year's aggregate debt service and certain investment maturity restrictions. Management believes that IMPA is in compliance with all debt covenants and restrictions.

Authority to Issue Debt

On August 11, 2004, the Indiana Utility Regulatory Commission (IURC) granted IMPA authority to issue debt up to \$850 million to finance the following three projects: (1) the Georgetown Plant Project; (2) the Trimble County Unit 2 Project; and (3) the Peabody Plants Project, which includes the Prairie State Project. The combined net proceeds of the 2004 Series A Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds, the 2007 Series B Bonds, the 2009 Series B Bonds and the 2009 Series C Bonds were approximately \$849.6 million. IMPA expects to issue approximately \$122.1 million of additional debt for the completion of the Prairie State Project.

Fair Value of Long-Term Revenue Bonds

Long-term revenue bonds are recorded at amortized cost. The estimated fair value of long-term revenue bonds at December 31, 2009 and 2008 is approximately \$1.2 billion and \$.878 billion, respectively. IMPA used OTC broker quotes which are corroborated by similar transaction for similar securities.

7. CURRENT REVENUE BONDS

The 1998 Series A Bonds are secured by an irrevocable transferable direct-pay letter of credit, expiring November 20, 2010, issued for the benefit of the owners of the 1998 Series A Bonds. The interest rate on the 1998 Series A Bonds is adjusted weekly, and bondholders may require repurchase of the 1998 Series A Bonds at the time of such interest rate adjustments. The interest rate at December 31, 2009 was .28%.

IMPA has entered into an agreement to provide for the remarketing of the 1998 Series A Bonds if such repurchase is required. IMPA has also entered into an agreement with the letter of credit provider which provides for the purchase by the letter of credit provider of the 1998 Series A Bonds if not remarketed.

While the 1998 Series A Bonds do not have a contractual maturity until January 1, 2018, as noted above the underlying letter of credit expires during 2010. Accordingly, IMPA has reclassified the 1998 Series A Bonds to Current Revenue Bonds at December 31, 2009. Prior to the expiration of the existing letter of credit, IMPA plans to either replace the existing letter of credit or issue refunding bonds with a similar maturity.

8. ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations represent legal obligations associated with the retirement of tangible long-lived assets that are incurred upon the acquisition, construction, development or normal operation of the assets. IMPA's asset retirement obligations consist primarily of costs associated with the future closure of a waste landfill and removal of asbestos at Gibson Unit 5 and the future closure of an ash pond at Trimble County Unit 1. Other asset retirement obligations are not significant.

Asset retirement obligations are recognized in the period in which they are incurred, if a reasonable estimate of fair value can be made. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over their useful life. The Agency uses an expected cash flow approach to measure the obligations. IMPA's asset retirement obligations have no impact on net income due to the Agency applying the provisions of ASC 980.

The following table presents the details of the Agency's asset retirement obligations for the years ended December 31, 2009 and 2008:

[in thousands]

	Beginning Balance	Liabilities Incurred	Liabilities Settled	Accretion	Cash Flow Revisions	Ending Balance
2009	\$ 2,173	244	-	253	(286)	\$ 2,384
2008	\$ 1,452	707	(47)	65	(4)	\$ 2,173

9. 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. The estimated non-current arbitrage liability at December 31, 2009 and 2008 was approximately \$3.6 and \$3.2 million respectively, and is included in other non-current liabilities on the consolidated balance sheets. The estimated arbitrage expense is recorded as a reduction of interest income.

10. EMPLOYEE BENEFIT PLAN

IMPA maintains a 401(k) plan on behalf of all employees meeting certain eligibility requirements regarding length of employment, age and employee contributions. Employer contributions to the plan were approximately \$234,000 for 2009 and \$224,000 for 2008.

11. CONCENTRATION OF RISK

Credit risk represents the risk of loss that would occur if suppliers or customers did not meet their contractual obligations to IMPA. 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.

Approximately 29% of the Agency's sales to municipalities were provided to two communities in 2009 and 2008. Accounts receivable balances for the two communities account for 28% and 29% of the total accounts receivable balances as of December 31, 2009 and 2008, respectively. IMPA has long-term energy purchase contracts with two suppliers that account for approximately 46% of IMPA's 2009 total energy requirements and two suppliers that accounted for approximately 45% of IMPA's 2008 total energy requirements.

12. JOINTLY-OWNED PLANT

IMPA is a joint owner of Gibson Unit 5 with DEI and WVPA. The Agency jointly owns Trimble County Unit 1 with LG&E and the Illinois Municipal Electric Agency (IMEA). IMPA co-owns certain transmission property and local facilities with DEI, DEO and WVPA. These facilities constitute part of the integrated transmission and distribution systems (JTS) operated and maintained by DEI and DEO. IMPA's portion of all operating costs associated with the commonly-owned facilities is reflected in the consolidated financial statements.

IMPA's investments in jointly-owned plant at December 31, 2009 were as follows:

[in thousands]

	Share	Utility Plant In Service	Accumulated Depreciation
Production			
Gibson Unit 5	24.95%	\$ 162,108	\$ 77,172
Trimble County Unit 1	12.88%	105,178	47,733
Transmission and local facilities	4.58%	77,892	32,712

IMPA, LG&E, Kentucky Utilities and IMEA are presently constructing the Trimble County Unit 2 Project, a nominal 750 MW supercritical steam unit under construction at the same site as Trimble County Unit 1. IMPA's share of the Trimble County Unit 2 Project is 12.88%, which will be approximately 100 MW upon completion of the unit. At December 31, 2009, the Trimble County Unit 2 Project was approximately 92.5% complete. The first firing of the Trimble County Unit 2 Project is planned for early 2010 and the plant is expected to be in commercial operation in 2010.

IMPA is part of a consortium known as the Prairie State Generating Company, LLC that is developing the Prairie State Project. IMPA owns a 12.64% undivided interest in the Prairie State Project. The Prairie State Project is planned to be an approximately 1600 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 38.0% complete at December 31, 2009. IMPA 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.

13. COMMITMENTS AND CONTINGENCIES

Leases

IMPA has entered into a site lease agreement for land. The site lease runs through May 31, 2020 with two optional five year renewals. Rent expense under the site lease for 2009 and 2008 was approximately \$117,000 per year. Future minimum lease payments are approximately \$108,000 per year from 2010 through 2014 and are approximately \$582,000 thereafter.

Contracts and Capital Expenditures

IMPA has purchased power contracts with several power producers. IMPA has firm commitments under take-or-pay contracts which expire on or before April 1, 2042. The total amount of these future purchase obligations at December 31, 2009 is approximately \$187.2 million for 2010 and \$2.0 billion through April 1, 2042.

IMPA anticipates its share of future capital expenditures for Gibson Unit 5, Trimble County Unit 1, combustion turbines, the JTS and other ongoing system projects to be approximately \$68.5 million for the years 2010 through 2014. The projected capital expenditures are of a normal and recurring nature. IMPA anticipates funding approximately \$9.3 million of the foregoing projected capital improvements with proceeds from the 2009 Series A Bonds and the remainder with internally generated funds.

On February 24, 2006, the IMPA Board of Commissioners approved IMPA's participation in the construction and operation of the Trimble County Unit 2 Project. IMPA has issued approximately \$184.9 million (par amount) of long-term revenue bonds to pay for IMPA's share of the Trimble County Unit 2 Project, capitalized interest during construction, bond issuance costs, and to fund a deposit to the Debt Service Reserve Fund.

On April 16, 2007, the IMPA Board of Commissioners approved IMPA's participation in the construction and operation of the Prairie State Project. IMPA has issued approximately \$620.5 million (par amount) of long-term revenue bonds to pay for IMPA's share of the Prairie State Project, capitalized interest during construction, bond issuance costs, and to fund a deposit to the Debt Service Reserve Fund. IMPA anticipates that the Agency will issue additional bonds over the next two years to fund construction costs not covered by the bonds previously issued.

Contract Disputes

In the normal course of business, IMPA 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 IMPA's financial position or results of operations.

14. SUBSEQUENT EVENTS

Management has evaluated these Audited Consolidated Financial Statements and Notes for subsequent events up through February 26, 2010, which is the issuance date of the 2009 Audited Consolidated Financial Statements.