

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, 2009. 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 increased approximately \$12.6 million (3%) in 2009 as compared to 2008. The 2009 increase in operating revenues was primarily a result of increases in average rates charged to members.

Very mild summer temperatures and the effects of the economic downturn resulted in an approximately 6% decrease in energy unit (kWh) sales during 2009 compared to 2008. Peak demand decreased approximately 1% in 2009 compared to 2008.

During 2009, IMPA transferred \$1.8 million from the rate stabilization fund. The transfers were made to compensate for lower than anticipated revenues as a result of the unanticipated reduction in IMPA's 2009 demand.

Operating expenses increased during 2009 compared to 2008 due primarily to higher purchased power costs in 2009. Lower transmission and maintenance costs partially offset the increase in purchased power expenses during 2009 compared to 2008. The higher than normal 2008 maintenance costs were a result of a planned major maintenance outage at Gibson Unit 5.

Higher operating expenses and lower energy and demand unit sales resulted in IMPA's average price per kilowatt-hour (kWh) charged for 2009 increasing by approximately 9% compared to the calendar year 2008 average price. IMPA's average cost per kWh for calendar year 2009 was 6.03 cents.

CONDENSED CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

[in millions]

	2009	2008
Sales to municipalities (used as security for revenue bonds)	\$ 350.3	\$ 342.9
Other revenues	25.9	20.8
Operating Revenues	376.2	363.7
Purchased power, fuel, and production expense	300.7	287.4
Transmission and local facilities	17.7	20.6
Other operating expenses	35.8	42.1
Operating Expenses	354.2	350.1
Operating Income	22.0	13.6
Interest expense and other debt related expenses	23.4	21.8
Interest income	(5.0)	(5.0)
Other non-operating expenses	0.1	0.1
Non-Operating Expenses	18.5	16.9
Net Income (Loss)	3.5	(3.3)
Net Assets at Beginning of Year	137.6	140.9
Net Assets at End of Year	\$ 141.1	\$ 137.6

Consolidated Balance Sheets

Utility plant, net, has increased approximately \$193 million, primarily from the construction of both the Trimble County Unit 2 and Prairie State Projects.

On February 26 and April 29, 2009, IMPA closed on the issuance of approximately \$32.6 million (the 2009 A Bonds) and \$210.4 million (the 2009 B & C Bonds) of power supply system revenue bonds, respectively. Proceeds of the 2009 A Bonds are being used to finance ongoing system capital improvements. Proceeds from the 2009 B & C Bonds are being used for the construction of the Trimble County Unit 2 and Prairie State Projects.

Net assets increased approximately \$3.4 million, reflecting IMPA's 2009 net income. The major changes in components of net assets include: capital additions net of disposals of approximately \$207.5 million; depreciation expense of approximately \$15.8 million; and principal payments on revenue bonds of \$20.8 million.

CONDENSED CONSOLIDATED BALANCE SHEETS

[in millions]

	2009	2008
Utility plant, net	\$ 814.2	\$ 620.9
Cash and investments	473.4	421.4
Other current assets	68.9	82.9
Deferred costs	71.9	77.4
Total Assets	\$ 1,428.4	\$ 1,202.6
Invested in capital assets, net of related debt	\$ (391.6)	\$ (365.0)
Restricted	386.2	369.2
Unrestricted	146.5	133.4
Total Net Assets	141.1	137.6
Non-current liabilities	1,155.8	975.9
Current liabilities	131.5	89.1
Total Liabilities	1,287.3	1,065.0
Total Net Assets and Liabilities	\$ 1,428.4	\$ 1,202.6

Debt Service Coverage

Debt service coverage for 2009 was 112.5%. The Agency's bond resolution requires debt service coverage to be at least 110%.

Transfers from the Rate Stabilization Fund

IMPA's Board of Commissioners approved transfers from the rate stabilization fund totaling \$1.8 million during 2009. The rate stabilization fund was established to alleviate large fluctuations in the rates IMPA charges the municipal utilities it serves. At December 31, 2009, IMPA has approximately \$18.5 million remaining in the rate stabilization fund.

Significant Events

IMPA Bond Ratings

IMPA's underlying ratings are A1 by Moody's Investor Services (Moody's), and A+ by Standard & Poor's (S&P) and Fitch Ratings (Fitch). IMPA's uninsured fixed rate bonds and Insured Bonds, with the exception of the 2009 Series A Bonds have been assigned IMPA's underlying ratings (A1/A+) by the rating agencies. The 2009 Series A Bonds were rated Aa3 by Moody's, AAA by S&P and AA—by Fitch at December 31, 2009. During 2009, the credit ratings of certain bond insurance companies who insure a portion of IMPA's fixed rate, long-term revenue bonds (the Insured Bonds) were downgraded. Bond insurance on the Insured Bonds remains in force.