Indiana Municipal Power Agency

Consolidated Financial Statements as of and for the years ended December 31, 2016 and 2015, Management's Discussion and Analysis, and Report of Independent Auditors

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the years ended December 31, 2016 and 2015
Management's Discussion and Analysis and Report of Independent Auditors

Table of Contents

Report of Independent Auditors

To the Board of Commissioners of
Indiana Municipal Power Agency

We have audited the accompanying consolidated financial statements of Indiana Municipal Power Agency and its subsidiaries, which comprise the consolidated statements of net position as of December 31, 2016 and 2015, and the related consolidated statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 our 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, we consider internal control relevant to the Agency'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 Agency'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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Indiana Municipal Power Agency and its subsidiaries as of December 31, 2016 and 2015, and the changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying management's discussion and analysis for the year ended December 31, 2016 on pages 3 through 5 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical

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context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the information for the year ended December 31, 2014 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

PricewaterhouseCoopers LLP

Cleveland, Ohio
March 24, 2017

INDIANA MUNICIPAL POWER AGENCY
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, 2016. 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 IMPA Service Corp. 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. IMPA Service Corp is a not-for-profit service corporation formed by IMPA to provide non-power supply services to IMPA members and other municipal entities. IMPA Service Corp's revenues and expenses are reported in IMPA's consolidated statements of revenues, expenses and changes in net position in other revenues and other non-operating expenses, respectively.

The consolidated statements of revenues, expenses and changes in net position and cash flows present information about IMPA's business activities. The consolidated statements of net position report year-end assets, liabilities and net position based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses, as appropriate. Over time, increases in the Agency's net position 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 POSITION

Operating revenues, which are composed of sales to municipalities and other revenues, increased approximately $3.9 million (0.9%) compared to 2015. Warmer temperatures during the summer months compared to 2015 resulted in increased energy sales to members in 2016 (1.3%). The average accrued cost per kilowatt hour (kWh) for 2016 was 7.18 cents, an approximate 0.4% decrease compared to 2015.

As a result of higher energy sales, total operating expenses increased approximately $1.5 million (0.4%) in 2016 compared to 2015. Total non-operating expenses decreased approximately $1.9 million, primarily as a result of lower interest expense of approximately $4.8 million which was partially offset by lower interest income of $3.2 million. Lower interest expense was primarily a result of certain bond refundings during 2016. Lower interest revenue was primarily the result of the maturity of a long-term investment contract during 2016.

CONDENSED CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION ($ millions)

	2016	2015
Sales to municipalities	$ 449.0	$ 443.3
Other revenues	3.7	5.5
Total Operating Revenues	**452.7**	**448.8**
Purchased power, fuel, and production expense	260.9	255.9
Transmission and local facilities	37.2	38.9
Other operating expenses	75.4	77.2
Total Operating Expenses	**373.5**	**372.0**
Total Operating Income	**79.2**	**76.8**
Interest expense	56.9	61.7
Interest income	(0.6)	(3.8)
Other non-operating income	(5.4)	(5.1)
Total Non-Operating Expenses (Income)	**50.9**	**52.8**
Change in Net Position	**28.3**	**24.0**
Net Position at Beginning of Year	**271.6**	**247.6**
Net Position at End of Year	**$ 299.9**	**$ 271.6**

CONSOLIDATED STATEMENTS OF NET POSITION

Utility plant increased approximately $11.8 million. 2016 net capital additions were approximately $56.7 million. Depreciation expense was approximately $45.8 million.

During 2016, IMPA closed on three bond issues — the 2016 Series A, the 2016 Series B and the 2016 Series C Bonds (collectively, the "2016 Bonds"). The 2016 Series A and the 2016 Series B Bonds are advanced refunding bonds. The 2016 Series B Bonds are a current refunding. The 2016 Bonds refunded the outstanding balances of the 2006 Series A, the 2007 Series A, the 2009 Series A and a portion of the 2009 Series B Bonds. The refundings are expected to result in a reduction of future debt service of approximately $129.0 million and a present value savings of approximately $81.6 million over the life of the 2016 Bonds.

Net position increased approximately $28.3 million, reflecting IMPA's 2016 net income. The major changes in components of net position include: capital additions net of disposals of approximately $56.7 million; depreciation expense of approximately $45.8 million; a net reduction of outstanding bonds as a result of the bond refundings of approximately $46.2 million; principal payments on revenue bonds of $25.6 million; and net payment on the line of credit of $17.5 million.

CONDENSED CONSOLIDATED STATEMENTS OF NET POSITION

($ millions)

	2016	2015
Utility plant, net	$ 1,226.1	$ 1,214.3
Cash and investments	263.4	288.9
Other current assets	111.9	115.0
Deferred outflows	136.8	96.6
Total Assets	**$ 1,738.2**	**$ 1,714.8**
Net investment in capital assets	(84.8)	(98.4)
Restricted	133.4	155.7
Unrestricted	251.3	214.3
Total Net Position	**299.9**	**271.6**
Non-current liabilities and deferred inflows of resources	1,318.7	1,327.7
Current liabilities	119.6	115.5
Total Liabilities	**1,438.3**	**1,443.2**
Total Net Position and Liabilities	**$ 1,738.2**	**$ 1,714.8**

DEBT SERVICE COVERAGE

Debt service coverage for 2016 was 1.33 times. The Agency's bond resolution requires debt service coverage to be at least 1.10 times.

INDIANA MUNICIPAL POWER AGENCY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(in thousands)

For the Years Ended December 31,	2016	2015
Operating Revenues		
Sales to municipalities	$ 448,986	$ 443,268
Other revenues	3,694	5,538
Total Operating Revenues	**452,680**	**448,806**
Operating Expenses		
Purchased power	164,401	165,184
Fuel	68,987	62,994
Production	27,473	27,755
Transmission and local facilities	37,213	38,903
Other operating	12,388	15,710
Maintenance	25,471	26,562
Depreciation	45,754	43,920
Future recoverable costs	(8,186)	(8,988)
Total Operating Expenses	**373,501**	**372,040**
Operating Income	**79,179**	**76,766**
Non-Operating Expenses (Income)		
Interest expense	56,854	61,678
Accretion of premiums received on debt	(6,365)	(3,953)
Interest income	(604)	(3,769)
Other non-operating income	988	(1,178)
Total Non-Operating Expenses (Income)	**50,873**	**52,778**
Change in Net Position	**28,306**	**23,988**
Net Position at Beginning of Year	**271,553**	**247,565**
Net Position at End of Year	**$ 299,859**	**$ 271,553**

The accompanying notes are an integral part of the above statements.

INDIANA MUNICIPAL POWER AGENCY
CONSOLIDATED STATEMENTS OF NET POSITION
(in thousands)

December 31,	2016	2015
Assets		
Utility Plant		
Utility plant in service	$ 1,598,201	$ 1,575,089
Less: accumulated depreciation	(450,781)	(405,962)
	1,147,420	1,169,127
Construction work in progress	78,667	45,129
Total Utility Plant, Net	**1,226,087**	**1,214,256**
Long-Term Investments	**45,733**	**35,197**
Restricted Cash and Cash Equivalents	**106,671**	**113,209**
Current Assets		
Unrestricted cash and cash equivalents	93,008	94,143
Short-term investments	18,012	46,378
Municipality accounts receivable	72,692	66,572
Fuel stock and material inventory	19,848	22,836
Other current assets	19,429	25,567
Total Current Assets	**222,989**	**255,496**
Deferred Outflows		
Regulatory assets	87,508	79,494
Other	49,250	17,135
Total Deferred Outflows	**136,758**	**96,629**
Total Assets	**$ 1,738,238**	**$ 1,714,787**
Net Position and Liabilities		
Net Position		
Net investment in capital assets	$ (84,785)	$ (98,440)
Restricted	133,401	155,668
Unrestricted	251,242	214,325
Total Net Position	**299,858**	**271,553**
Non-Current Liabilities		
Long-term revenue bonds, net	1,285,287	1,287,830
Other non-current liabilities	24,465	31,566
Total Non-Current Liabilities	**1,309,752**	**1,319,396**
Current Liabilities		
Current maturities of revenue bonds	25,585	24,865
Short-term borrowings	-	17,500
Accounts payable	39,469	36,197
Accrued interest on revenue bonds	28,018	30,777
Accrued liabilities	26,559	6,160
Total Current Liabilities	**119,631**	**115,499**
Deferred Inflows of Resources	**8,997**	**8,339**
Total Net Position and Liabilities	**$ 1,738,238**	**$ 1,714,787**

The accompanying notes are an integral part of the above statements.

INDIANA MUNICIPAL POWER AGENCY
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

For the Years Ended December 31,	2016	2015
Cash Flows From Operating Activities:		
Receipts from municipalities	$ 467,408	$ 459,587
Other operating receipts	3,694	5,538
Payments for purchased power	(162,162)	(168,792)
Payments for fuel	(66,224)	(67,428)
Payments for production	(26,510)	(28,970)
Payments for transmission and local facilities	(35,160)	(39,536)
Cash deposits as collateral	(162)	(6,103)
Payments for other operating expenses	(10,523)	(11,760)
Payments for maintenance	(25,674)	(25,204)
Net cash provided by operating activities	**144,687**	**117,332**
Cash Flows From Noncapital Financing Activities:		
Proceeds from short-term borrowings	-	35,000
Payments on short-term borrowings	(17,500)	(17,500)
Net cash (used by) provided by noncapital financing activities	**(17,500)**	**17,500**
Cash Flows From Capital And Related Financing Activities:		
Net additions to utility plant	(66,137)	(72,529)
Net issuance of long-term debt	620,046	40,000
Refunding of long-term debt	(623,019)	-
Principal payments on long-term debt	(24,865)	(29,155)
Interest payments	(59,614)	(58,733)
Net cash used in capital and related financing activities	**(153,589)**	**(120,417)**
Cash Flows From Investing Activities:		
Investment purchases	(86,758)	(2,042)
Maturities and called investments	103,924	14,000
Interest income and other	1,563	5,000
Net cash provided by investing activities	**18,729**	**16,958**
Net (Decrease) Increase in Cash and Cash Equivalents	**(7,673)**	**31,373**
Cash and Cash Equivalents at Beginning of Year	**207,352**	**175,979**
Cash and Cash Equivalents at End of Year	**$ 199,679**	**$ 207,352**

The accompanying notes are an integral part of the above statements.

INDIANA MUNICIPAL POWER AGENCY
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
(in thousands)

For the Years Ended December 31,	2016	2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 79,179	$ 76,766
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	45,754	43,920
Future recoverable costs	(8,186)	(8,988)
Changes in current assets and liabilities:		
Municipality accounts receivable	(6,120)	1,993
Fuel stock and material inventory	2,988	(3,674)
Accounts payable	2,811	(2,907)
Other	28,261	10,222
	$ 144,687	**$ 117,332**

The accompanying notes are an integral part of the above statements.

INDIANA MUNICIPAL POWER AGENCY
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 serves 60 Indiana cities and towns and one Ohio village. 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 generating capacity is 962 megawatts (MW) or 80% of IMPA's 2016 peak demand (IMPA's maximum year-to-date hourly load). 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); and, transmission service arrangements with other utilities and regional transmission organizations.

IMPA Service Corp 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, IMPA Service Corp. 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 accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). 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 the communities it serves 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 in 1983 from Public Service Indiana (now known as DEI), a wholly-owned subsidiary of Duke Energy Corp.; (2) an undivided 12.88% ownership in the 514 MW Trimble County Unit 1 generating facility (Trimble County Unit 1) acquired in 1993 from Louisville

Gas and Electric Company (LG&E), a wholly-owned subsidiary of PPL Corporation; (3) an undivided 12.88% ownership in the 750 MW Trimble County Unit 2 generating facility (Trimble County Unit 2) constructed at the same site as Trimble County Unit 1 and placed in service in 2011, (4) an undivided 12.64% ownership in the 1600 MW Prairie State Generating Company, LLC (PSGC or Prairie State) placed in service in 2012, (5) 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), and (12) twelve wholly-owned solar parks aggregating to 19.25 MW throughout the state of Indiana in member communities.

The Agency capitalizes fixed assets with an original cost greater than $25,000, except for jointly-owned utility plant, which are capitalized based on the policies defined by DEI for Gibson Unit 5, by LG&E for Trimble County Unit 1 and Unit 2 and by PSGC for Prairie State Units 1 and 2, the coal mine and other Prairie State facilities. Utility plant is recorded at cost including capitalized interest during construction and a proportionate share of overhead costs. 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 2.9% and 2.8% in 2016 and 2015, respectively.

IMPA's ownership interest in Prairie State includes an interest in coal reserves with an original cost net of depletion of $9.5 and $9.8 million at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, construction work in progress (CWIP) included construction costs for ongoing utility plant capital improvements.

Funds

IMPA's Master Power Supply System Revenue Bond Resolution (the Bond Resolution) requires the creation and maintenance of certain funds and accounts. The Restricted Funds under the Bond Resolution are the Debt Service Fund and the Debt Service Reserve Fund. The Bond Resolution allows for the creation and maintenance of the Rate Stabilization Account, the Reserve and Contingency Fund, and the Asset Retirement Obligation Fund, the use of which is restricted by Board resolution. The Construction Fund includes 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. Government agencies as available for sale. In accordance with GASB Statement 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 regulatory assets and deferred inflows of resources (see Regulatory Assets and Deferred Inflows of Resources). The fair value of a financial instrument is the amount at which an instrument could be exchanged in a current transaction between willing parties.

Hedging Derivative Instruments

IMPA accounts for derivatives in accordance with GASB Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments"* (GASB 53). GASB 53 requires that hedging derivative instruments ("Hedging Transactions") be recorded at fair value and establishes certain requirements for revenue recognition, measurement and disclosure related to Hedging Transactions. IMPA's Hedging Transactions have been tested for effectiveness under the guidelines prescribed by GASB 53. IMPA utilized one of the three quantitative methods required by GASB 53, the regression analysis method. This method evaluates the effectiveness of a hedge transaction by comparing the statistical relationship between the cash flows of the potential hedging item and the hedgeable item. The effectiveness testing of IMPA's Hedging Transactions demonstrated that the hedges are effective as defined by GASB 53. See Note 5 for specific disclosures related to derivatives.

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.

Regulatory Assets and Deferred Inflows of Resources

In accordance with GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance"* (GASB 62), IMPA's consolidated financial statements reflect the rate making actions of the Board of Commissioners that result in the recognition of revenues and expenses in different time periods than entities that are not rate regulated. Regulatory assets are expenditures incurred by the Agency that will be recovered in rates in future periods. Deferred inflows of resources are revenues collected in rates for expenses not yet incurred by the Agency.

Regulatory assets and deferred inflows of resources consist of the following (in thousands):

Regulatory Assets	2016	2015
Debt service net of related depreciation and amortization	$ 83,124	$ 75,532
Net valuation of financial instruments	4,384	3,962
	$ 87,508	$ 79,494

Deferred Inflows of Resources	2016	2015
Reserve for contingencies	$ 6,451	$ 5,632
Valuation of inventories	2,546	2,707
	$ 8,997	$ 8,339

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 $1.0 million for 2016 and 2015.

Committed Line of Credit

IMPA has entered into a committed line of credit agreement (Credit Agreement) with PNC Bank. Under the Credit Agreement, IMPA may draw funds and/or post standby letters of credit . The Credit Agreement expires on March 1, 2021. At December 31, 2016 the total Credit Agreement was $75 million and IMPA had posted letters of credit totaling $9.0 million. At December 31, 2015 the total Credit Agreement was $50 million and IMPA had posted letters of credit totaling $9.5 million and had $17.5 million of outstanding funds drawn on the Credit Agreement.

Revenue Recognition and Rates

IMPA sets rates in accordance with the Bond Resolution. The Bond 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 budget rates. Differences between the accrued rate and the billed rate are collected from or returned to the communities via a tracker in subsequent periods. The amount to be paid to members (a regulatory liability) at December 31, 2016 was $20.1 million. The amount to be collected from members (a regulatory asset) at December 31, 2015 was $4.5 million. The amounts are paid (billed) over the subsequent six month period. The regulatory liability is included in accrued liabilities and the regulatory asset is included in other current assets in the consolidated statements of net position at December 31, 2016 and 2015, respectively.

Operating Expenses

Operating expenses are defined as purchased power and 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.

Non-Operating Expenses

Non-operating expenses include interest income and expenses, costs related to the issuance of bonds, amortization of bond premiums, Build America Bond (BAB) subsidies and other non-operating revenues and expenses as previously defined in Operating Expenses.

IMPA Service Corp

IMPA Service Corp'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 Midcontinent Independent System Operator (MISO) and a transmission dependent utility of the MISO and PJM Interconnection, LLC (PJM). The MISO schedules, manages and oversees operational control of the JTS.

The MISO 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.

IMPA records all net sales through MISO and PJM to purchase power on the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Income Taxes

IMPA, as a political subdivision of the State of Indiana, is exempt from federal and state income taxes. IMPA Service Corp qualifies for income tax exclusion under Internal Revenue Code Section 115.

Related Parties

Through December 31, 2015, IMPA provided general management and administrative services through a management services agreement for the Northern Illinois Municipal Power Agency, a participant in Prairie State.

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP 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. The reported results of operations are not indicative of results of operations for any future period. IMPA has evaluated events and transactions for potential recognition or disclosure through March 27, 2017, the issuance date of the consolidated financial statements.

Accounting Pronouncements Issued

During 2015, GASB issued Statement No. 72, “Fair Value Measurement and Application” (GASB 72), which addresses how fair value should be defined and measured. It prescribes the assets and liabilities that should be measured at fair value and expands disclosures related to fair value measurements. The Agency adopted GASB 72 for the calendar year ended December 31, 2016.

During 2016, FASB issued Accounting Standards Update 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01), which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The Agency adopted ASU 2016-01 for the calendar year ended December 31, 2016.

During 2016, GASB issued Statement No. 83, “Certain Asset Retirement Obligations” (GASB 83). GASB 83 establishes uniform criteria for governments to recognize and measure certain asset retirement obligations. GASB 83 is effective for reporting periods beginning after June 15, 2018. IMPA does not believe that GASB 83 will have a material impact on IMPA’s consolidated financial statements.

During 2016, FASB issued Accounting Standards Update 2016-18, “Restricted Cash” (ASU 2016-18). ASU 2016-18 will change certain statement of cash flows requirements with regards to restricted cash and cash equivalents. ASU 2016-18 is effective for reporting periods beginning after December 15, 2018. IMPA does not believe that ASU 2016-18 will have a material impact on IMPA’s consolidated financial statements.

During 2014, FASB issued Accounting Standards Update 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (ASU 2014-15), which addresses management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures, including the timing and content of the footnote disclosures. The Agency adopted ASU 2014-15 for the calendar year ended December 31, 2016. The Agency does not believe that ASU 2014-15 has any impact on the consolidated financial statements.

2. Capital Assets

Capital asset activity for the years ended December 31, 2016 and 2015, was as follows (in thousands):

2016	Beginning Balance	Additions	Transfers	Retirements	Other	Ending Balance
Utility plant in service	$1,575,089	$ 2,361	$ 30,476	$ (1,558)	$ (8,167)	$ 1,598,201
Construction work in progress	45,129	64,014	(30,476)	-	-	78,667
Total Utility Plant (Gross)	1,620,218	66,375	-	(1,558)	(8,167)	1,676,868
Less accumulated depreciation for utility plant in service	(405,962)	(45,754)	-	935	-	(450,781)
	$1,214,256	**$ 20,621**	**$ -**	**$ (623)**	**$ (8,167)**	**$ 1,226,087**

2015	Beginning Balance	Additions	Transfers	Retirements	Other	Ending Balance
Utility plant in service	$1,497,401	$ 2,108	$ 65,902	$ (4,672)	$ 14,350	$ 1,575,089
Construction work in progress	33,188	77,843	(65,902)	-	-	45,129
Total Utility Plant (Gross)	1,530,589	79,951	-	(4,672)	14,350	1,620,218
Less accumulated depreciation for utility plant in service	(363,296)	(43,920)	-	1,254	-	(405,962)
	$1,167,293	**$ 36,031**	**$ -**	**$ (3,418)**	**$ 14,350**	**$ 1,214,256**

3. Cash, Cash Equivalents and Investments

A Board policy governs IMPA's investments and deposits. IMPA's authorized investments include money market funds, federal agencies, investment contracts, US treasuries, commercial paper and repurchase agreements if the instruments meet certain minimum rating requirements.

During the years ended December 31, 2016 and 2015, IMPA recorded net decreases in the fair value of investments of $0.7 million and $0.4 million, 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, 2016 and 2015 have been included in regulatory assets on IMPA's consolidated statements of net position (see Note 1).

The Agency had a guaranteed investment contract (GIC) with Societe Generale that earns a fixed rate of 6.9%. A portion of the Debt Service Reserve Fund was invested in the GIC. The GIC was evidenced by a repurchase agreement with the Trustee, The Bank of New York Company and was collateralized by investments in US government obligations. Societe Generale was rated A by Standard and Poor's as well as Fitch and A2 by Moody's. The GIC expired on January 1, 2016 and allowed the Trustee to request immediate remittance of the funds for purposes set forth in the Resolution. As required by the Resolution, the Trustee had custody of collateral and securities. All of the Agency's investments were insured, registered or held by the Trustee in the Agency's name during the life of the GIC.

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 cost as they are not transferable instruments. The disclosed fair value of the investment contracts represents their liquidation values as of December 31, 2016 and 2015.

At December 31, 2016 and 2015, the original cost and the estimated fair values of the Agency's cash, cash equivalents and investments were as follows (in thousands):

	2016		2015	
INVESTMENT TYPE	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Long-Term Investments:				
Restricted:				
U.S. Government Agencies	$ 46,531	$ 45,733	$ 35,570	$ 35,197
Total Long Term Investments	46,531	45,733	35,570	35,197
Cash and Cash Equivalents:				
Restricted	106,671	106,671	113,209	113,209
Unrestricted	93,008	93,008	94,143	94,143
Total Cash and Cash Equivalents	199,679	199,679	207,352	207,352
Short-Term Investments:				
Restricted:				
Investments Contracts	-	-	39,289	39,289
U.S. Government Agencies	18,152	18,012	7,826	7,089
Total Short-Term Investments	18,152	18,012	47,115	46,378
Total	**$ 264,362**	**$ 263,424**	**$ 290,037**	**$ 288,927**

U.S. Government agencies consist solely of mortgage-backed securities which are backed by the full faith and credit guaranty of the United States' government. All long-term investments mature in less than five years.

At December 31, 2016 and 2015, the Agency's cash, cash equivalents and investments were restricted as follows (in thousands):

	2016		2015	
FUND	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Unrestricted:	$ 93,008	$ 93,008	$ 94,143	$ 94,143
Restricted by Board:				
Rate Stabilization Fund	22,673	22,502	21,355	21,129
Other Board Restricted Accounts	12,630	12,630	9,408	9,257
Restricted by Bond Resolution:				
Debt Service Reserve Fund	78,373	77,606	85,078	84,345
Debt Service Account	54,085	54,085	56,239	56,239
Construction Fund	3,417	3,417	23,620	23,620
Other Restricted:	176	176	194	194
Total	**$264, 362**	**$ 263,424**	**$290,037**	**$ 288,927**

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

4. Net Position

At December 31, 2016 and 2015, the Agency's net position included the following components (in thousands):

	2016	2015
Net investment in capital assets	$ (84,785)	$ (98,440)
Restricted for debt service	26,068	25,463
Restricted for debt service reserve	77,606	84,345
Restricted for bond financed construction projects	3,417	23,620
Restricted by Board resolution	26,310	22,240
Unrestricted	251,242	214,325
	$ 299,858	**$ 271,553**

5. Hedging Transactions

IMPA purchases forward power contracts to minimize the cost volatility of purchased power in the energy markets. IMPA does not purchase derivatives for speculative purposes. The acquisition of forward power contracts allows IMPA to effectively plan and set stable rates from period to period for IMPA's Members. Certain of IMPA's forward power contracts are settled by a cash payment that is equal to the differential between the contract price and the settlement price (financially settled). Financially settled forward power contracts are hedging derivative instruments as defined by GASB 53. IMPA has entered into hedging transactions in the MISO and PJM energy markets.

IMPA is required to test its hedging transactions for effectiveness as of the reporting date as defined by GASB 53. IMPA's outstanding hedging transactions at December 31, 2016 and 2015 have been determined by management to be effective. Accordingly, IMPA's outstanding hedging transactions are reported in the Agency's December 31, 2016 and 2015 consolidated statements of net position at fair value. The fair market value for each of IMPA's hedging transactions have been determined by computing the difference between the contractual forward price and the published forward price at the respective energy market's settlement point(s) at market closing as of December 31, 2016 and 2015. All of IMPA's hedging transactions settle and are valued at either the Indiana Hub or the AEP Dayton Hub, which are settlement hubs in the MISO and PJM energy markets, respectively.

As of December 31, 2016, the Agency has recorded unrealized gains and losses in Other current assets, approximately $1.0 million, Deferred outflows, approximately $8.3 million, Other non–current liabilities, approximately $0.4 million and Accrued liabilities of approximately $0.8 million. As of December 31, 2015, the Agency has recorded unrealized gains and losses in Other current assets, approximately $2.0 million, Deferred outflows, approximately $7.8 million, Other non–current liabilities, approximately $0.6 million and Accrued liabilities of approximately $46.0 thousand.

The following tables provide information related to IMPA's outstanding derivative instruments as of December 31, 2016 and 2015 (in thousands).

December 31, 2016

Trade Date Range	Duration	Notional Amount (MWhs)	Ending Fair Value	
			Classification	Amount
Jan 2015 thru Oct 2016	Mar 2017 thru Dec 2017	600	Accrued liabilities	$ (1,011)
Jan 2015 thru Oct 2016	Jan 2016 thru Oct 2017	675	Other current assets	844
Dec 2014 thru Oct 2016	Mar 2018 thru Dec 2021	2,300	Other non-current liabilities	(8,266)
Dec 2014 thru Oct 2016	Jan 2018 thru Aug 2019	250	Deferred outflows	432
		3,825		**$ (8,001)**

December 31, 2015

Trade Date Range	Duration	Notional Amount (MWhs)	Ending Fair Value	
			Classification	Amount
May 2014 thru Jan 2015	Oct 2016 thru Dec 2016	925	Accrued liabilities	$ (1,980)
Jan 2015	Jul 2016 thru Aug 2016	50	Other current assets	46
Dec 2014 thru Oct 2015	Mar 2017 thru Dec 2021	2,625	Other non-current liabilities	(7,807)
Jan 2015 thru Oct 2015	Jan 2017 thru Jul 2018	350	Deferred outflows	566
		3,950		$ (9,175)

Credit Risk

The counterparty to all of IMPA's forward contracts are exchanges. Exchanges are designed to avoid contract defaults and credit risk. Exchanges utilize clearing houses to guarantee the performance of each market participant for each transaction. The clearing house requires every market participant to deposit funds into a margin account. There is a required deposit for a percent of the nominal value of outstanding contracts and a deposit to reflect each market participant's daily gain or loss in the market. These funds are held by the clearing house and available to settle any defaults by market participants, thus mitigating credit risk related to IMPA's outstanding forward power contracts traded through the exchange.

Basis Risk

IMPA is exposed to basis risk on its hedging transactions because the pricing point of the hedged commodity may settle at a different pricing point than the hedge transaction (Indiana Hub or AEP-Dayton Hub). At December 31, 2016 and 2015, the Indiana Hub price was $33.76 and $22.82 per MWh and the AEP-Dayton Hub price was $31.96 and $24.44 per MWh, respectively.

Termination Risk

IMPA is exposed to termination risk on its hedging transactions because a counterparty may fail to perform under the terms of one or more contracts resulting in the termination of the contract with that counterparty. IMPA's termination risk is mitigated for those forward power contracts transacted on the Exchanges.

Commitments

IMPA had $13.8 and $13.6 million posted as collateral at December 31, 2016 and 2015, respectively. This is recorded in other current assets on the consolidated statement of net position.

6. Long-Term Revenue Bonds

IMPA issues Power Supply System Revenue Bonds to finance its acquisition and construction of utility plant. Long-term revenue bonds issued and outstanding at December 31, 2016 and 2015, consist of the following (in thousands):

Bond Series	Interest Rates	Due Date January 1,	Optional Redemption Date January 1,	2016	2015
1993 Series B	-	[1]		$ -	$ 3,175
1998 Series A	Variable	2017 to 2018		25,145	37,000
2006 Series A	-	[2]		-	25,000
2007 Series A	-	[3]		-	403,575
2007 Series B	5.800%	2019 to 2022		20,125	20,125
2009 Series A	3.000%	2017[4]		1,410	25,705
2009 Series B	-	[3]		-	133,510
2009 Series C	7.350%	2019 to 2024		16,035	16,035
2010 Series A	5.594%	2031 to 2042		123,640	123,640
2010 Series B	5.000%	2020 to 2023	2021	20,235	20,235
2011 Series A	5.000%	2017 to 2042	2022	83,205	87,355
2012 Series A	4.000% - 5.000%	2017 to 2028	2022	46,790	51,130
2013 Series A	3.000% - 5.250%	2017 to 2042	2023	108,400	108,400
2014 Series A	5.000%	2019 to 2032	2025	167,730	167,730
2015 Series A	Variable	2017 to 2042	March 10, 2017	40,000	40,000
2016 Series A	4.000% - 5.000%	2033 to 2042	2026	366,350	-
2016 Series B	Variable	2029 to 2031		24,225	-
2016 Series C	5.000%	2018 to 2039	2027	148,285	-
				1,191,575	1,262,615
Less current maturities				(25,585)	(24,865)
Long-term revenue bonds				1,165,990	1,237,750
Unamortized premium, net				119,297	50,080
				$ 1,285,287	$ 1,287,830

[1] Final maturity January 1, 2016
[2] Current refunded bonds during 2016
[3] Advanced refunded bonds during 2016
[4] Partially advanced refunded bonds during 2016

The 2007 Series B Bonds and 2009 Series C Bonds are non-callable. The 1998 Series A Bonds and the 2016 Series B Bonds are currently callable at a redemption price of 100%. The 2010 Series A Bonds are designated as direct payment Build America Bonds and have make-whole optional redemption and extraordinary optional redemption provisions. The 2006 Series A Bonds, the 2007 Series A Bonds, the 2009 Series A Bonds and a portion of the 2009 Series B Bonds were refunded during 2016. 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, 2016 were as follows (in thousands):

	Principal	Interest
2017	$ 25,585	$ 59,171
2018	26,060	58,385
2019	25,875	57,250
2020	27,215	55,905
2021	28,595	54,525
2022 - 2026	162,705	248,679
2027 - 2031	206,385	203,885
2032 - 2036	268,075	147,019
2037 - 2041	421,080	77,969
	$ 1,191,575	**$ 962,788**

Long-term revenue bond activity for the periods ended December 31, 2016 and 2015, was as follows (in thousands):

December 31, 2016	Beginning Balance	Additions	Reductions	Ending Balance
Long-term revenue bonds	$ 1,262,615	$ 538,860	$ (609,900)	$ 1,191,575
Less:				
Current maturities	(24,865)	24,865	(25,585)	(25,585)
Unamortized premium, net	50,080	81,186	(11,969)	119,297
	$ 1,287,830	**$ 644,911**	**$ (647,454)**	**$ 1,285,287**

December 31, 2015	Beginning Balance	Additions	Reductions	Ending Balance
Long-term revenue bonds	$ 1,251,770	$ 40,000	$ (29,155)	$ 1,262,615
Less:				
Current maturities	(29,155)	29,155	(24,865)	(24,865)
Unamortized premium, net	54,804	-	(4,724)	50,080
	$1,277,419	**$ 69,155**	**$ (58,744)**	**$ 1,287,830**

Debt Service Coverage

The IMPA Power Supply System Revenue Bond Resolution (Resolution) contains covenants that require IMPA to collect through rates 1.1 times the current year's accrued aggregate debt service. Debt service coverage was 1.33 times and 1.26 times for 2016 and 2015, respectively. Debt service coverage for 2016 was calculated based on approximately $25.6 million of principal payable in January 2016, approximately $61.7 million of 2016 interest expense payable during 2016 and in January 2016, net of approximately $1.5 million transferred during 2016 to the Rate Stabilization Fund. Management believes that IMPA is in compliance with all financial debt covenants and restrictions as of December 31, 2016.

1998 Series A Variable Rate Bonds

The 1998 Series A Bonds are secured by an irrevocable transferable direct-pay letter of credit ("Letter of Credit") 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. Through the Letter of Credit, the Agency has right of direct offset with its lender for any repurchases. These bonds have a contractual maturity of January 1, 2018 and the letter of credit expiration coincides with the maturity date of the Bonds. The interest rate at December 31, 2016 on the 1998 Series A Bonds was 0.72%.

2010 Series A Build America Bonds (BAB)

During the years ended December 31, 2016 and 2015, IMPA received BAB subsidies of approximately $2.3 million and $2.2 million, respectively. BAB subsidies are included in other non-operating income on the consolidated statements of revenues, expense and changes in net position.

2015 Series A Multimodal (Variable) Bonds

On March 10, 2015, the Agency issued the 2015 Series A Multimodal Bonds (the "2015 Series A Bonds") of $40 million to finance ongoing capital expenditures for the Agency's Power Supply System. The 2015 Series A Bonds are a direct purchase agreement between IMPA and Citibank N.A. ("Citibank") with initial put date of March 10, 2020. The 2015 Series A Bonds are not secured by a Letter of Credit. The 2015 Series A Bonds will mature January 1, 2042. In the current mode, the interest rate on the 2015 Series A Bonds is adjusted weekly and Citibank may only require repurchase if certain terms of default occur. The interest rate on the 2015 Series A Bonds was 1.12% at December 31, 2016.

Refunding Bonds

During 2016, IMPA closed on a current refunding, the 2016 Series B Bonds, and two advanced refundings, the 2016 Series A Bonds and the 2016 Series C Bonds (the "Refunding Bonds"). The Refunding Bonds refunded the outstanding balances of the 2006 Series B Bonds, the 2007 Series A Bonds, the 2009 Series A Bonds and a portion of the 2009 Series B Bonds (the "Refunded Bonds").

A summary of the Refunding Bonds and the Refunded bonds is as follows:

Refunding Bonds		Refunded Bonds		Reduction of Future Debt Service	Present Value Savings
Description	Par	Description	Par		
2016 Series A	$ 366,350	2007 A Bonds	$ 403,575	$ 79,698	$ 46,488
2016 Series B	24,225	2006 A Bonds	25,000	8,900	6,500
2016 Series C	148,285	2009 A & B Bonds	156,460	40,367	28,650
	$ 538,860		**$ 585,035**	**$ 128,965**	**$ 81,638**

Reduction of Future Debt Service and Present Value Savings for the 2016 Series B Bonds assumes an average interest rate of 2.0% over the life of the 2016 Series B Bonds.

The difference between the carrying values of the Refunded Bonds and the Refunding Bonds was deferred and is included in deferred outflows of resources on the consolidated statements of net position.

2016 Series B Variable Rate Bonds

The 2016 Series B Bonds are secured by an irrevocable transferable direct pay letter of credit ("Letter of Credit") issued for the benefit of the owners of the 2016 Series B Bonds. The interest rates on the 2016 Series B Bonds is adjusted daily, and bondholders may require repurchase of the 2016 Series B bonds at the time of such interest rate adjustments. Through the Letter of Credit, the Agency has the right of direct offset with its lender for any repurchases. These bonds have a contractual maturity of January 1, 2032. The Letter of Credit has a contractual maturity of December 1, 2020. The interest rate at December 31, 2016 on the 2016 Series B Bonds was .71%.

7. Fair Value of Financial Instruments

As defined in the fair value measurements standard, fair value is the price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants on the measurement date. This standard establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy defined by the fair value measurement standard are as follows:

Level 1

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those where transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. IMPA's Level 1 assets primarily consist of money market funds that are listed on active exchanges which are included in unrestricted cash and cash equivalents and restricted cash and cash equivalents on the consolidated statements of net position. IMPA does not have any liabilities that meet the definition of Level 1.

Level 2

Pricing inputs are either directly or indirectly observable in the market as of the reporting date, other than quoted prices in active markets included in Level 1. Level 2 includes those financial instruments that are valued using models or other valuation methodologies based on assumptions that are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. These models are primarily industry-standard models that consider various assumptions, including time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. IMPA's Level 2 assets and liabilities consist primarily of debt securities and purchase power futures, which are included in long-term investments, short-term investments, other current assets, other deferred outflows, accrued liabilities, and other non-current liabilities.

Level 3

Pricing inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. IMPA does not have any assets or liabilities that meet the definition of Level 3.

IMPA utilizes market data and assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. IMPA primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, IMPA maximizes the use of observable inputs and minimizes the use of unobservable inputs.

The carrying amounts of cash, accounts receivable and accounts payable approximate their fair value due to their short-term nature.

The following tables set forth IMPA's financial assets and financial liabilities that are accounted for on a recurring basis at fair value by level within the fair value hierarchy as of December 31, 2016 and December 31, 2015. As required by the fair value measurement standard, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. IMPA's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Recurring fair value measures at December 31, 2016 and December 31, 2015 were as follows (in thousands):

December 31, 2016	Level 1	Level 2	Total
Assets:			
Money market funds	$ 152,877	$ -	$ 152,877
Debt securities	-	63,745	63,745
Purchase power futures	-	1,276	1,276
	$ 152,877	**$ 65,021**	**$ 217,898**
Liabilities:			
Purchase power futures	$ -	$ 9,277	$ 9,277
	$ -	**$ 9,277**	**$ 9,277**

December 31, 2015	Level 1	Level 2	Total
Assets:			
Money market funds	$ 162,925	$ -	$ 162,925
Debt securities	-	81,575	81,575
Purchase power futures	-	612	612
	$ 162,925	**$ 82,187**	**$ 245,112**
Liabilities:			
Purchase power futures	$ -	$ 9,787	$ 9,787
	$ -	**$ 9,787**	**$ 9,787**

8. 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 cost of mine reclamation and closure at Prairie State and with the future closure of waste disposal facilities at IMPA's jointly-owned plants.

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 change in net position due to the Agency applying the provisions of GASB 62.

The following table presents the details of the Agency's asset retirement obligations for the periods ended December 31, 2016 and 2015 (in thousands):

	Beginning Balance	Liabilities Incurred	Liabilities Settled	Accretion	Cash Flow Revisions	Ending Balance
2016	$ 22,805	$ -	(357)	941	(8,000)	$ 15,389
2015	$ 8,632	$ 1,275	(242)	171	12,969	$ 22,805

The 2015 and 2016 asset retirement obligations cash flow revisions are primarily a result of the United States Environmental Protection Agency's final Disposal of Coal Combustion Residuals (CCR) from Electric Utilities rule published in the Federal Register on April 17, 2015. The revisions reflect changes in planning and timing for Trimble County's and Gibson's existing CCR disposal sites.

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 Agency did not have any estimated current arbitrage liability at December 31, 2016. The estimated current arbitrage liability at December 31, 2015 was approximately $231,000. The estimated non-current arbitrage liability at December 31, 2016 and 2015 was approximately $0.4 and $0.6 million, respectively, and was included in other non-current liabilities on the Consolidated Statements of Net Position. The estimated arbitrage expense is recorded as a reduction of interest income.

10. 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 28% of the Agency's sales to municipalities were provided to two communities for the period ended December 31, 2016 and 2015. Accounts receivable balances for the two communities account for 29% of the total municipality accounts receivable balances as of December 31, 2016 and 2015. IMPA has long-term energy purchase contracts with two suppliers that account for approximately 33% and 34% of IMPA's total energy for the years ended December 31, 2016 and 2015, respectively.

11. Jointly-Owned Plant

IMPA is a joint owner of Gibson Unit 5, Trimble County Unit 1 and Unit 2, Prairie State Units 1 and 2 and co-owns certain transmission property and local facilities. IMPA's portion of all operating costs associated with the commonly-owned facilities is reflected in the consolidated financial statements. For further discussion of Jointly-Owned Plant, see Note 1, Utility Plant.

IMPA's investments in jointly-owned plant at December 31, 2016 were as follows (in thousands):

	Share	Utility Plant In Service	Accumulated Depreciation
Production			
Gibson Unit 5	24.95%	$ 188,411	$ 97,425
Prairie State Units 1 & 2	12.64%	751,826	88,956
Trimble County Units 1 & 2	12.88%	299,566	94,307
Transmission and local facilities	5.11%	120,735	48,112

12. Commitments and Contingencies

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, 2016 was approximately $156.7 million for 2017 and $2.4 billion through April 1, 2042.

IMPA anticipates its share of future capital expenditures for Gibson Unit 5, Prairie State Units 1 and 2, Trimble County Units 1 and 2, the combustion turbines, the JTS and other ongoing system projects to total approximately $317 million for the years 2017 through 2021. The projected capital expenditures include both environmental improvements and expenditures of a normal and recurring nature. IMPA anticipates funding the foregoing projected capital improvements with a combination of internally generated funds and proceeds from future debt offerings.

Environmental Protection Agency Matters

The Cross State Air Pollution Rule and the Cross State Air Pollution Update Rule

The Cross State Air Pollution Rule (CSAPR) aims to reduce emissions of SO2 and NOx from electric generating units greater than 25 MW in the eastern half of the United States by controlling 28 upwind states from preventing downwind states from reaching their emission reduction goals for particulate matter (PM2.5) and ozone standards. The proposed Cross State Air Pollution Update Rule (CSAPR Update Rule) would further reduce emissions of NOx from generating units in 23 states, including Indiana, Illinois and Kentucky. IMPA expects that the Agency will have to acquire SO2 and NOx emission allowances in order to comply with CSAPR, but there will be no material impact on IMPA's generating facilities. The full impacts of the proposed CSAPR Update Rule on IMPA's generating units are not yet known.

The Mercury and Air Toxics Standards

The Mercury and Air Toxics Standards (MATS) rule sets emission limits for hazardous air pollutants (HAPS), including mercury, particulate matter (PM), and hydrochloric acid (HCl) for electric generating units greater than 25 MW. All of IMPA's units comply with MATS. While litigation on the rule continues, IMPA does not expect there to be any material changes to the rule that would cause more capital additions.

The Clean Power Plan

The Clean Power Plan (CPP) rule seeks to reduce CO2 emissions from electric generating units by 32 percent below 2005 levels by 2030. The U.S. Supreme Court issued a stay of the CPP, which is in effect while the D.C. Circuit reviews the challenges to the rule and during any appeal to the U.S. Supreme Court that may occur after the D.C. Circuit issues its opinion. The new administration has expressed no interest in defending the CPP should the CPP challengers prevail before the D.C. Circuit. If the CPP survives and challengers appeal to the U.S. Supreme Court, it is expected that the administration will not put forward an ardent defense. At this time, it is unknown what the full impacts of the CPP will be.

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 as of the report issuance date is not material to IMPA's financial position or results of operations.

Securities and Exchange Commission (SEC)

In January 2013, the SEC staff served a subpoena on the Agency seeking information and documents relating to the development of Prairie State. IMPA complied with the SEC's request. On February 9, 2017, the SEC staff informed the Agency that they have concluded their investigation and based on the information they have, they do not intend to recommend an enforcement action by the SEC against IMPA.

Litigation

On August 19, 2014, IMPA was informed of a putative class action lawsuit filed in the Circuit Court of Kane County, Illinois, on behalf of certain ratepayers receiving electric utility service from the City of Batavia, Illinois. The lawsuit names IMPA, IMPA's President and CEO, and other parties as defendants (the "Defendants"). On August 13, 2015, the United States District Court granted the motions to dismiss filed by the Defendants. With the dismissal, the court allowed an amendment to the complaint to be filed by October 23, 2015. Plaintiffs subsequently filed an amended complaint on October 23, 2015, alleging that Defendants made certain negligent misrepresentations relating to the Prairie State Energy Campus project, and seeking actual and punitive damages in an unspecified amount. IMPA moved the court to dismiss the amended complaint and the court granted IMPA's motion on August 30, 2016. On October 26, 2016, the United States District Court entered final judgement in favor of IMPA.

13. Subsequent Events

On February 8, 2017, IMPA sold its recently constructed Anderson 1 Solar Park to Indiana Solar Holding, LLC. In conjunction with the sale, IMPA entered into a prepaid purchase power agreement whereby IMPA will purchase 100% of the solar park's generation at a pre-established price for up to 25 years. The sales agreement provides an option for IMPA to purchase the solar park back in 5 ½ years.