Indiana Municipal Power Agency

Consolidated Financial Statements as of and for the years ended December 31, 2017 and 2016, Management's Discussion and Analysis, and Report of Independent Auditors

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the years ended December 31, 2017 and 2016
Management's Discussion and Analysis and Report of Independent Auditors

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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, 2017 and 2016, 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, 2017 and 2016, and of 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 on pages 3 through 5 are 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 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 audits 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Columbus, Ohio
April 6, 2018

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, 2017 and 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.

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

	2017	2016	2015
Sales to municipalities	$ 418.5	$ 449.0	$ 443.3
Other revenues	4.9	3.7	5.5
Total Operating Revenues	**423.4**	**452.7**	**448.8**
Purchased power, fuel, and production expense	230.0	260.9	255.9
Transmission and local facilities	42.9	37.2	38.9
Other operating expenses	79.6	75.4	77.2
Total Operating Expenses	**352.5**	**373.5**	**372.0**
Total Operating Income	**70.9**	**79.2**	**76.8**
Interest expense	56.4	56.9	61.7
Interest income	(1.9)	(0.6)	(3.8)
Other non-operating income	(6.7)	(5.4)	(5.1)
Total Non-Operating Expenses (Income)	**47.8**	**50.9**	**52.8**
Change in Net Position	**23.1**	**28.3**	**24.0**
Net Position at Beginning of Year	**299.9**	**271.6**	**247.6**
Net Position at End of Year	**$ 323.0**	**$ 299.9**	**$ 271.6**

2017 Discussion

Operating revenues, which are composed of sales to municipalities and other revenues, decreased approximately $29.3 million (6.5%) compared to 2016. Lower operating costs and milder temperatures in 2017 compared to 2016 resulted in a reduction of total sales to members in 2017. The average accrued cost per kilowatt hour (kWh) for 2017 was 6.86 cents, an approximate 4.5% decrease compared to 2016. Energy sales (kWh) to members decreased approximately 2.5% in 2017 compared to 2016

Total operating expenses decreased approximately $21.0 million (5.6%) in 2017 compared to 2016 primarily due to a greater reliance on IMPA-owned generation and lower fuel and purchased power costs. Total non-operating expenses, including lower interest and other bond related costs net of higher interest income, decreased approximately $3.1 million.

2016 Discussion

Operating 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 NET POSITION ($ millions)

	2017	2016	2015
Utility plant, net	$ 1,231.2	$ 1,226.1	$ 1,214.3
Cash and investments	350.2	263.4	288.9
Other current assets	120.6	111.9	115.0
Deferred outflows	181.0	136.8	96.6
Total Assets	**$ 1,883.0**	**$ 1,738.2**	**$ 1,714.8**
Net investment in capital assets	(162.0)	(84.8)	(98.4)
Restricted	167.8	133.4	155.7
Unrestricted	317.2	251.3	214.3
Total Net Position	**323.0**	**299.9**	**271.6**
Non-current liabilities	1,410.7	1,318.7	1,327.7
Current liabilities	149.3	119.6	115.5
Total Liabilities	**1,560.0**	**1,438.3**	**1,443.2**
Total Net Position and Liabilities	**$ 1,883.0**	**$ 1,738.2**	**$ 1,714.8**

Utility plant increased approximately $5.1 million and $11.8 million in 2017 and 2016, respectively. Capital additions were approximately $82.3 million in 2017. Net retirements and other adjustments in 2017 were approximately $33.5 million, and include the sale of certain solar generation facilities. Net capital additions in 2016 were approximately $56.7 million. Depreciation expense was approximately $43.7 million and $45.8 million in 2017 and 2016, respectively.

During 2017, IMPA closed on the 2017 Series A Bonds (the “2017 Bonds”) and during 2016, IMPA closed on the 2016 Series A, B and C Bonds (the “2016 Bonds”). The 2017 Bonds were issued to fund capital improvements and refund certain outstanding bonds. The 2016 Bonds were issued to refund certain outstanding bonds. The 2017 and 2016 refundings are expected to result in a reduction of future debt service of approximately $12.1 million and $129.0 million and present value savings of approximately $9.3 million and $81.6 million over the life of the bonds, respectively.

During 2017 and 2016, total net position increased approximately $23.1 million and $28.3 million, reflecting IMPA’s 2017 and 2016 net income, respectively.

Debt service coverage for 2017 and 2016 was 1.26 times and 1.33 times, respectively. 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,	2017	2016
Operating Revenues		
Sales to municipalities	$ 418,472	$ 448,986
Other revenues	4,909	3,694
Total Operating Revenues	**423,381**	**452,680**
Operating Expenses		
Purchased power	139,163	164,401
Fuel	64,410	68,987
Production	26,468	27,473
Transmission and local facilities	42,863	37,213
Other operating	21,547	12,388
Maintenance	27,219	25,471
Depreciation	43,677	45,754
Future recoverable costs	(12,865)	(8,186)
Total Operating Expenses	**352,482**	**373,501**
Operating Income	**70,899**	**79,179**
Non-Operating Expenses (Income)		
Interest expense	56,391	56,854
Accretion of premiums received on debt	(6,220)	(6,365)
Interest income	(1,909)	(604)
Other non-operating income	(520)	988
Total Non-Operating Expenses (Income)	**47,742**	**50,873**
Change in Net Position	**23,157**	**28,306**
Net Position at Beginning of Year	**299,859**	**271,553**
Net Position at End of Year	**$ 323,016**	**$ 299,859**

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

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

December 31,	2017	2016
Assets		
Utility Plant		
Utility plant in service	$ 1,653,228	$ 1,598,201
Less: accumulated depreciation	(484,130)	(450,781)
	1,169,098	1,147,420
Construction work in progress	62,136	78,667
Total Utility Plant, Net	**1,231, 234**	**1,226,087**
Long-Term Investments	**68,171**	**45,733**
Restricted Cash and Cash Equivalents	**116,979**	**106,671**
Current Assets		
Unrestricted cash and cash equivalents	145,045	93,008
Short-term investments	20,009	18,012
Municipality accounts receivable	68,633	72,692
Fuel stock and material inventory	19,332	19,848
Other current assets	32,605	19,429
Total Current Assets	**285,624**	**222,989**
Deferred Outflows		
Regulatory assets	100,814	87,508
Other	80,203	49,250
Total Deferred Outflows	**181,017**	**136,758**
Total Assets	**$ 1,883,025**	**$ 1,738,238**
Net Position and Liabilities		
Net Position		
Net investment in capital assets	$ (162,022)	$ (84,785)
Restricted	167,820	133,401
Unrestricted	317,218	251,243
Total Net Position	**323,016**	**299,859**
Non-Current Liabilities		
Long-term revenue bonds, net	1,367,196	1,285,287
Other non-current liabilities	31,116	24,464
Total Non-Current Liabilities	**1,398,312**	**1,309,751**
Current Liabilities		
Current maturities of revenue bonds	26,060	25,585
Accounts payable	33,448	39,469
Accrued interest on revenue bonds	24,934	28,018
Accrued liabilities	64,851	26,559
Total Current Liabilities	**149,293**	**119,631**
Deferred Inflows of Resources	**12,404**	**8,997**
Total Net Position and Liabilities	**$ 1,883,025**	**$ 1,738,238**

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

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

For the Years Ended December 31,	2017	2016
Cash Flows From Operating Activities:		
Receipts from municipalities	$ 459,794	$ 467,408
Other operating receipts	4,909	3,694
Payments for purchased power	(143,975)	(162,162)
Payments for fuel	(63,688)	(66,224)
Payments for production	(25,860)	(26,510)
Payments for transmission and local facilities	(38,664)	(35,160)
Cash deposits as collateral	(10,401)	(162)
Payments for other operating expenses	(12,636)	(10,523)
Payments for maintenance	(26,851)	(25,674)
Net cash provided by operating activities	**142,628**	**144,687**
Cash Flows From Noncapital Financing Activities:		
Payments on short-term borrowings	**-**	**(17,500)**
Cash Flows From Capital And Related Financing Activities:		
Net additions to utility plant	(83,573)	(66,137)
Proceeds from sale of capital assets	4,872	-
Net issuance of long-term debt	264,396	620,046
Refunding of long-term debt	(158,340)	(623,019)
Principal payments on long-term debt	(25,585)	(24,865)
Interest payments	(59,472)	(59,614)
Net cash used in capital and related financing activities	**(57,702)**	**(153,589)**
Cash Flows From Investing Activities:		
Investment purchases	(43,026)	(86,758)
Maturities and called investments	18,000	103,924
Interest income and other	2,445	1,563
Net cash provided by investing activities	**(22,581)**	**18,729**
Net (Decrease) Increase in Cash and Cash Equivalents	**62,345**	**(7,673)**
Cash and Cash Equivalents at Beginning of Year	**199,679**	**207,352**
Cash and Cash Equivalents at End of Year	**$ 262,024**	**$ 199,679**

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

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

For the Years Ended December 31,	2017	2016
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 70,899	$ 79,179
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	43,677	45,754
Future recoverable costs	(12,865)	(8,186)
Changes in current assets and liabilities:		
Municipality accounts receivable	4,059	(6,120)
Fuel stock and material inventory	516	2,988
Accounts payable	(3,399)	2,811
Other	39,741	28,261
Net cash provided by operating activities	**$ 142,628**	**$ 144,687**

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 967 megawatts (MW) or 86% of IMPA's 2017 peak demand (IMPA's maximum annual 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) placed in service in 1982; (2) an undivided 12.88% ownership in the 514 MW Trimble County Unit 1 generating facility (Trimble County Unit 1) placed in service in 1990; (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 (6) twelve wholly-owned solar generating facilities with a total generating capacity of approximately 19.25 MW 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 2.6% and 2.9% in 2017 and 2016, respectively.

IMPA's ownership interest in Prairie State includes an interest in coal reserves with an original cost net of depletion of $9.2 and $9.5 million at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, construction work in progress (CWIP) included construction costs for ongoing utility plant capital improvements.

Sale of Solar Generation Facilities (Solar Parks)

In February 2017, IMPA closed on the sale of a solar park constructed in Indiana member community Anderson with a total capacity of approximately 5 MW and entered into a prepaid purchase power agreement to take all of the output from the solar park for 25 years. Prepaid purchase power is included in Other Deferred Outflows on the Consolidated Statements of Net Position. The agreement provides IMPA an option to buy the solar park at 5 ½ years after commercial operation.

In December 2017, IMPA closed on the development and sale of four solar parks in Indiana member communities Anderson, Flora, Greenfield, and Spiceland and entered into purchase power agreements to purchase all of the output from the solar parks for 25 years. Combined, the total capacity of the solar parks was approximately 12.3 MW. As part of the agreements, IMPA loaned the purchaser a portion of the sales price. The notes receivable are included in Other Deferred Outflows on the Consolidated Statements of Net Position. The purchase power agreements provide IMPA an option to buy the solar parks after six years.

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.

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	**2017**	**2016**
Debt service net of related depreciation and amortization	$ 96,380	$ 83,124
Net valuation of financial instruments	4,434	4,384
	$ 100,814	**$ 87,508**

Deferred Inflows of Resources	**2017**	**2016**
Reserve for contingencies	$ 10,074	$ 6,451
Valuation of inventories	2,330	2,546
	$ 12,404	**$ 8,997**

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 2017 and 2016.

Committed Line of Credit

IMPA has entered into a $75 million 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, 2017 and 2016, IMPA had posted letters of credit totaling $8.0 and $9.0 million, respectively.

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, 2017 and 2016 was $57.3 million and $20.1 million, respectively. The regulatory liability is included in accrued liabilities in the consolidated statements of net position at December 31, 2017 and 2016.

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.

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 April 6, 2018, the issuance date of the consolidated financial statements.

Accounting Pronouncements Issued

During 2016, the Government Accounting Standards Board (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, the Financial Accounting Standards Board (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 IMPA for reporting periods beginning after December 15, 2017. IMPA does not believe that ASU 2016-18 will have a material impact on IMPA’s consolidated financial statements.

During 2016 and 2017, the FASB updated Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers (Topic 606), Topic 606 establishes financial reporting principles regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Topic 606 will be effective for IMPA for reporting periods beginning after December 15, 2017. IMPA does not believe that Topic 606 will have a material impact on IMPA’s consolidated financial statements.

During 2017, the GASB issued Statement No. 87, “Leases” (GASB 87). GASB 87 is effective for reporting periods beginning after December 15, 2019. GASB 87 establishes a single model for lease accounting whereby leases are financings of the right to use an underlying asset. The Agency early adopted GASB 87 retroactively for the year ending December 31, 2017. IMPA has certain office equipment that it leases, however, the impact of adopting GASB 87 is immaterial. No changes were made to the financial statements for the years ending prior to December 31, 2017 as a result of adopting GASB 87.

During 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842) Section A – Leases: Amendments to the FASB Accounting Standards Codification" and ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the Emerging Issues Task Force)." During 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The Agency has determined that ASU 2016-02, ASU 2016-15 and ASU 2017-12 are in conflict with and contradict GASB 87 and GASB Statement No. 34 Basic Financial Statements – And Management's Discussion and Analysis – For State and Local Governments and GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments, respectively, and will not adopt ASU 2016-02, ASU 2016-15 and ASU 2017-12.

2. Capital Assets

Capital asset activity for the years ended December 31, 2017 and 2016, was as follows (in thousands):

2017	**Beginning Balance**	**Additions**	**Transfers**	**Retirements**	**Other**	**Ending Balance**
Utility plant in service	$ 1,598,201	$ 1,266	$ 73,031	$ (18,815)	$ (455)	$ 1,653,228
Construction work in progress	78,667	81,057	(73,031)	(24,557)	-	62,136
Total Utility Plant (Gross)	1,676,868	82,323	-	(43,372)	(455)	1,715,364
Less accumulated depreciation for utility plant in service	(450,781)	(43,677)	-	9,859	469	(484,130)
	$ 1,226,087	**$ 38,646**	**$ -**	**$ (33,513)**	**$ 14**	**$ 1,231,234**

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**

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, 2017 and 2016, IMPA recorded net decreases in the fair value of investments of $0.6 million and $0.7 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, 2017 and 2016 have been included in regulatory assets on IMPA's consolidated statements of net position (see Note 1).

The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of the instruments.

At December 31, 2017 and 2016, the original cost and the estimated fair values of the Agency's cash, cash equivalents and investments were as follows (in thousands):

	2017		2016	
INVESTMENT TYPE	**Cost**	**Estimated Fair Value**	**Cost**	**Estimated Fair Value**
Long-Term Investments:				
Restricted:				
U.S. Government Agencies	$ 69,144	$ 68,171	$ 46,531	$ 45,733
Cash and Cash Equivalents:				
Restricted	116,979	116,979	106,671	106,671
Unrestricted	145,045	145,045	93,008	93,008
Total Cash and Cash Equivalents	262,024	262,024	199,679	199,679
Short-Term Investments:				
Restricted:				
U.S. Government Agencies	20,415	20,009	18,152	18,012
Total	**$ 351,583**	**$ 350,204**	**$ 264,362**	**$ 263,424**

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.

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, 2017 and 2016, the Agency's cash, cash equivalents and investments were restricted as follows (in thousands):

	2017		2016	
FUND	**Cost**	**Estimated Fair Value**	**Cost**	**Estimated Fair Value**
Unrestricted:	$ 145,045	$ 145,045	$ 93,008	$ 93,008
Restricted by Board:				
Rate Stabilization Fund	24,642	24,377	22,673	22,502
Other Board Restricted Accounts	21,077	21,007	12,630	12,630
Restricted by Bond Resolution:				
Debt Service Reserve Fund	83,117	82,073	78,373	77,606
Debt Service Account	51,462	51,462	54,085	54,085
Construction Fund	26,182	26,182	3,417	3,417
Other Restricted:	58	58	176	176
Total	**$ 351,583**	**$ 350,204**	**$ 264, 362**	**$ 263,424**

4. Net Position

At December 31, 2017 and 2016, the Agency's net position included the following components (in thousands):

	2017	**2016**
Net investment in capital assets	$ (162,022)	$ (84,785)
Restricted for debt service	26,528	26,068
Restricted for debt service reserve	82,073	77,606
Restricted for bond financed construction projects	26,182	3,417
Restricted by Board resolution	33,037	26,310
Unrestricted	317,218	251,243
	$ 323,016	**$ 299,859**

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, 2017 and 2016 have been determined by management to be effective. Accordingly, IMPA's outstanding hedging transactions are reported in the Agency's December 31, 2017 and 2016 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, 2017 and 2016. 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, 2017, the Agency has recorded unrealized gains and losses in Other current assets, approximately $0.7 million, Deferred outflows, approximately $12.0 million, Other non–current liabilities, approximately $2.1 million and Accrued liabilities of approximately $0.4 million. 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.

The following tables provide information related to IMPA's outstanding derivative instruments as of December 31, 2017 and 2016 (in thousands).

December 31, 2017

Trade Date Range	Duration	Notional Amount (MWhs)	Ending Fair Value	
			Classification	Amount
Jan 2015 thru Dec 2017	Jan 2018 thru Dec 2018	475	Accrued liabilities	$ (742)
Jan 2015 thru Dec 2017	Jan 2018 thru Jun 2018	300	Other current assets	410
Dec 2014 thru Mar 2017	Jan 2019 thru Dec 2026	5,850	Other non-current liabilities	(12,044)
Oct 2016 thru Mar 2017	Jul 2019 thru Aug 2026	2,025	Deferred outflows	2,127
		8,650		**$ (10,249)**

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 2017 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)**

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, 2017 and 2016, the Indiana Hub price was $28.88 and $33.76 per MWh and the AEP-Dayton Hub price was $31.66 and $31.96 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 $24.2 and $13.8 million posted as collateral at December 31, 2017 and 2016, 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, 2017 and 2016, consist of the following (in thousands):

Bond Series	**Interest Rates**	**Due Date January 1,**	**Optional Redemption Date January 1,**	**2017**	**2016**
1998 Series A	Variable	2018		$ 12,820	$ 25,145
2007 Series B	5.800%	2019 to 2022		20,125	20,125
2009 Series A	3.000%	2017		-	1,410
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 2021		24,515	83,205
2012 Series A	4.000% - 5.000%	2017 to 2020		33,830	46,790
2013 Series B	3.000% - 5.250%	2017 to 2042	2023	29,995	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	39,095	40,000
2016 Series A	4.000% - 5.000%	2033 to 2042	2026	366,350	366,350
2016 Series B	Variable	2029 to 2031		24,225	24,225
2016 Series C	5.000%	2018 to 2039	2027	148,285	148,285
2017 Series A	5.000%	2019 to 2042	2028	222,605	-
				1,249,485	1,191,575
Less current maturities				(26,060)	(25,585)
Long-term revenue bonds				1,223,425	1,165,990
Unamortized premium, net				143,771	119,297
				$ 1,367,196	**$ 1,285,287**

The 2007 Series B Bonds and 2009 Series C Bonds are non-callable. 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. During 2017, portions of the 2011 Series A Bonds, 2012 Series A Bonds and 2013 Series A Bonds were refunded. 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, 2017 were as follows (in thousands):

	Principal	Interest
2018	$ 26,060	$ 57,790
2019	26,645	61,984
2020	28,770	59,859
2021	30,230	58,401
2022	31,815	56,814
2023 - 2027	185,760	257,393
2028 - 2032	236,655	206,497
2033 - 2037	300,605	142,543
2038 - 2042	382,945	60,209
	$ 1,249,485	**$ 961,490**

Long-term revenue bond activity for the periods ended December 31, 2017 and 2016, was as follows (in thousands):

December 31, 2017	**Beginning Balance**	**Additions**	**Reductions**	**Ending Balance**
Long-term revenue bonds	$ 1,191,575	$ 222,605	$ (164,695)	$ 1,249,485
Less:				
Current maturities	(25,585)	25,585	(26,060)	(26,060)
Unamortized premium, net	119,297	41,791	(17,317)	143,771
	$ 1,285,287	**$ 289,981**	**$ (208,072)**	**$ 1,367,196**

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**

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 1.26 times and 1.33 times for 2017 and 2016, respectively. Debt service coverage for 2017 was calculated based on approximately $26.1 million of principal payable in January 2018, approximately $56.4 million of 2017 interest expense payable during 2017 and in January 2018, net of approximately $2.0 million transferred during 2017 to the Rate Stabilization Fund. Management believes that IMPA is in compliance with all financial debt covenants and restrictions as of December 31, 2017.

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, 2017 on the 1998 Series A Bonds was 1.75%.

2010 Series A Build America Bonds (BAB)

During the years ended December 31, 2017 and 2016, IMPA received BAB subsidies of approximately $2.3 million. 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

The 2015 Series A Multimodal Bonds (the "2015 Series A Bonds") are a direct purchase agreement between IMPA and Citibank N.A. ("Citibank") with an 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 2.11% at December 31, 2017.

2016 Refunding Bonds

During 2016 , IMPA closed on a current refunding, the 2016 Series B Bonds, and two advance refundings, the 2016 Series A Bonds and the 2016 Series C Bonds (the "2016 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 "2016 Refunded Bonds").

A summary of the 2016 Refunding Bonds and the 2016 Refunded bonds is as follows:

2016 Refunding Bonds		2016 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 2016 Refunded Bonds and the 2016 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, 2017 on the 2016 Series B Bonds was 1.73%.

2017 Series A Bonds

During 2017, the Agency closed on the 2017 Series A Bonds with a par value of approximately $222.6 million. Approximately $100 million of the proceeds from the bonds will be used for ongoing capital improvements. The remaining proceeds (the "2017 Refunding Bonds") were used to advance refund a portion of the 2011 Series A Bonds, the 2012 Series A Bonds, and the 2013 Series A Bonds (the "2017 Refunded Bonds"). The 2017 Refunding Bonds are an advance refunding.

A summary of the 2017 Refunded Bonds is as follows:

2017 Refunded Bonds		Reduction of Future Debt Service	Present Value Savings
Description	**Par**		
2011 Series A	$ 53,830	$ 5,600	$ 4,065
2012 Series A	8,370	781	654
2013 Series A	76,910	5,760	4,595
	$ 139,110	**$ 12,141**	**$ 9,314**

The difference between the carrying values of the 2017 Refunding Bonds and the 2017 Refunded Bonds has been deferred and is included in deferred outflows of resources on the consolidated statements of net position.

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 purchased 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, 2017 and December 31, 2016. 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, 2017 and December 31, 2016 were as follows (in thousands):

December 31, 2017	Level 1	Level 2	Total
Assets:			
Money market funds	$ 194,319	$ -	$ 194,319
Debt securities	-	88,180	88,180
Purchase power futures	-	2,537	2,537
	$ 194,319	**$ 90,717**	**$ 285,036**
Liabilities:			
Purchase power futures	**$ -**	**$ 12,786**	**$ 12,786**

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**

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, 2017 and 2016 (in thousands):

	Beginning Balance	Liabilities Settled	Accretion	Cash Flow Revisions	Ending Balance
2017	$ 15,389	(224)	649	(455)	$ 15,359
2016	$ 22,805	(357)	941	(8,000)	$ 15,389

The 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's arbitrage liability at December 31, 2017 and 2016 was approximately $0.4 million and was included in accrued liabilities on the December 31, 2017 Consolidated Statements of Net Position and in other non-current liabilities on the December 31, 2016 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, 2017 and 2016. Accounts receivable balances for the two communities account for 28% and 29% of the total municipality accounts receivable balances as of December 31, 2017 and 2016, respectively. IMPA has long-term energy purchase contracts with two suppliers that account for approximately 32% and 33% of IMPA's total energy for the years ended December 31, 2017 and 2016, 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, 2017 were as follows (in thousands):

	Share	Utility Plant In Service	Accumulated Depreciation
Production			
Gibson Unit 5	24.95%	$ 192,765	$ 93,298
Prairie State Units 1 & 2	12.64%	751,310	107,988
Trimble County Units 1 & 2	12.88%	316,419	101,606
Transmission and local facilities	4.63%	151,867	51,125

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, 2017 was approximately $144.4 million for 2018 and $2.2 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 $315 million for the years 2018 through 2022. 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 Clean Power Plan

The Clean Power Plan (CPP) rule sought to reduce carbon dioxide emissions from electric generating units by 32 percent below 2005 levels by 2030. In February 2016, the U.S. Supreme Court issued a stay of the CPP, allowing the D.C. Circuit to review challenges to the rule. In May 2017, the EPA asked the D.C. Circuit to indefinitely suspend litigation over the CPP. The EPA has proposed a rule to repeal the CPP and additionally issued an advanced notice of proposed rulemaking regarding a possible replacement CPP. IMPA anticipates that its generating units would be affected by a replacement rule aimed at reducing carbon emissions, but when and to what degree depends on the final rule.

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.