Indiana Municipal Power Agency

Consolidated Financial Statements as of and for
the years ended December 31, 2013 and 2012,
Management's Discussion and Analysis, and
Independent Auditor's Report

Indiana Municipal Power Agency

Financial Statements for the years ended December 31, 2013 and 2012
Management's Discussion and Analysis and Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

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 affiliate (the "Agency"), which comprise the consolidated statement of net position as of December 31, 2013, and the related consolidated statements of revenues, expenses, and changes in net position and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit 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 affiliate at

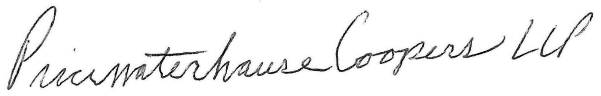
December 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

The accompanying management's discussion and analysis 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 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.

Other Matter

The consolidated financial statements of the Agency as of December 31, 2012 and for the year then ended, prior to the adjustment to retroactively apply the change in accounting for Government Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*, as described in Note 2, were audited by other auditors whose report, dated March 11, 2013, expressed an unmodified opinion on those statements.



PricewaterhouseCoopers LLP
Cleveland, Ohio
April 4, 2014

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, 2013. It should be read in conjunction with the basic consolidated financial statements and the accompanying notes.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements presented herein include all of the activities of IMPA and its affiliate ISC, Inc. (ISC). The Agency substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. These statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. IMPA has implemented all Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements. ISC is a not-for-profit service corporation formed by IMPA to provide non-power supply services to IMPA members and other municipal entities. ISC's revenues and expenses are reported in IMPA's consolidated statements of revenues, expenses and changes in net 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 $30.4 million (7.5%). The primary drivers of increased operating revenues were higher energy sales and higher average rates. The average accrued cost per kilowatt hour (kWh) for 2013 was 7.0 cents, a 6.1% increase compared to 2012.

IMPA's billing demand in 2013 was 12,093 megawatts and energy sales to members were 6,204 million megawatt-hours, a 4.1% and a 1.8% increase compared to 2012, respectively. Demand and energy sales are impacted by summer and winter temperatures, the economic condition of IMPA's members and the addition of new members. While IMPA's annual system

peak was down approximately 2.3% as a result of cooler 2013 temperatures in June and July, overall cooler temperatures in the winter and warmer temperatures during the other months resulted in higher energy and demand sales during those months. IMPA's members continue to see improvement in their local economies. And during 2014, IMPA added two new member communities, New Ross and Montezuma, Indiana.

Expenses, including debt service, increased approximately $29.9 million, an approximately 7.8% increase compared to 2012. During 2012, Prairie State Units 1 and 2 were placed in service. Prairie State Unit 1 was placed in service on June 6, 2012 and Unit 2 was placed in service on November 3, 2012. 2013 was the first full year of debt service on Prairie State Units 1 and 2.

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

	2013	2012
Sales to municipalities (used as security for revenue bonds)	$ 434.5	$ 402.6
Other revenues	2.9	4.4
Operating Revenues	**437.4**	**407.0**
Purchased power, fuel, and production expense	274.3	258.1
Transmission and local facilities	31.8	23.8
Other operating expenses	49.4	65.5
Operating Expenses	**355.5**	**347.4**
Operating Income	**81.9**	**59.6**
Interest expenses	64.2	41.2
Interest income	(4.5)	(5.1)
Other non-operating expenses	(2.0)	(.1)
Non-Operating Expenses	**57.7**	**36.0**
Net Income	**24.2**	**23.6**
Net Position at Beginning of Year	**196.8**	**173.2**
Net Position at End of Year	$ 221.0	$ 196.8

CONSOLIDATED STATEMENTS OF NET POSITION

Utility plant decreased approximately $17.5 million. 2013 net capital additions were approximately $22.8 million. Depreciation expense was $40.7 million. As previously mentioned, Units 1 and 2 of the Prairie State Project were placed in service in 2012.

During 2013, the Agency issued the 2013 Series A Bonds (the "2013 Bonds"). The par value of the 2013 Bonds was $108.4 million. The 2013 Bonds were issued for the purpose of refunding certain 2009 Series B Bonds (the "Refunded Bonds") and to provide $50 million of cash

proceeds for future capital improvements. The refunding of the Refunded Bonds will result in a reduction of future debt service of approximately $10.4 million. The present value of the reduction in debt service is approximately $6.5 million.

At December 31, 2012, current Liabilities included the 1998 Series A Bonds (the "1998 Bonds") that do not have a contractual maturity until January 1, 2018. The underlying letter of credit was scheduled to expire during 2013. Accordingly, IMPA has reclassified the 1998 Bonds to Current Liabilities. Prior to the expiration of the letter of credit, IMPA and Citibank extended the underlying letter of credit through November 2016.

Net position increased approximately $24.2 million, reflecting IMPA's 2013 net income. The major changes in components of net position include: capital additions net of disposals of approximately $22.8 million; depreciation expense of approximately $40.7 million; issuance of long-term debt with $50.0 million of net bond proceeds and principal payments on revenue bonds of $24.1 million.

CONDENSED CONSOLIDATED STATEMENTS OF NET POSITION

($ millions)

	2013	2012
Utility plant, net	$ 1,181.3	$ 1,198.8
Cash and investments	289.2	251.0
Other current assets	101.5	80.3
Deferred costs	68.6	43.7
Total Assets	**$ 1,640.6**	**$ 1,573.8**
Net investment in capital assets	(145.4)	(99.8)
Restricted	186.9	152.0
Unrestricted	179.5	144.6
Total Net Position	**221.0**	**196.8**
Non-current liabilities	1,321.5	1,247.4
Current liabilities	98.1	129.6
Total Liabilities	**1,419.1**	**1,377.0**
Total Net Position and Liabilities	**$ 1,640.6**	**$ 1,573.8**

DEBT SERVICE COVERAGE

Debt service coverage for 2013 was 1.28 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,	2013	2012
Operating Revenues		
Sales to municipalities	$ 434,513	$ 402,625
Other revenues	2,891	4,355
Total Operating Revenues	**437,404**	**406,980**
Operating Expenses		
Purchased power	184,482	180,071
Fuel	67,163	61,701
Production	22,672	16,366
Transmission and local facilities	31,783	23,759
Other operating	11,114	9,936
Maintenance	18,462	11,371
Depreciation	40,744	30,286
Future recoverable costs	(20,930)	13,895
Total Operating Expenses	**355,490**	**347,385**
Operating Income	**81,914**	**59,595**
Non-Operating Expenses (Income)		
Interest expense on revenue bonds	64,213	41,172
Accretion of premiums received on debt	(1,097)	(5)
Interest income	(4,534)	(5,076)
Other non-operating income	(831)	(130)
Total Non-Operating Expenses (Income)	**57,751**	**35,961**
Net Income	**24,163**	**23,634**
Net Position at Beginning of Year	**196,792**	**173,158**
Net Position at End of Year	**$ 220,955**	**$ 196,792**

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

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

December 31,	2013	2012
Assets		
Utility Plant		
Utility plant in service	$ 1,475,096	$ 1,449,324
Less: accumulated depreciation	(323,882)	(283,603)
	1,151,214	1,165,721
Construction work in progress	30,093	33,075
Total Utility Plant, Net	**1,181,307**	**1,198,796**
Long-Term Investments	**94,187**	**78,108**
Restricted Cash and Cash Equivalents	**123,560**	**84,998**
Current Assets		
Unrestricted cash and cash equivalents	55,636	63,919
Short-term investments	15,830	23,998
Municipality accounts receivable	64,638	57,163
Fuel stock and material inventory	16,869	15,061
Other current assets	20,001	8,055
Total Current Assets	**172,974**	**168,196**
Deferred Outflows		
Regulatory assets	62,785	38,797
Other	5,853	4,875
Total Deferred Outflows	**68,638**	43,672
	$1,640,666	**$1,573,770**
Net Position and Liabilities		
Net Position		
Net investment in capital assets	$ (145,395)	$ (99,822)
Restricted	186,858	152,018
Unrestricted	179,492	144,596
Total Net Position	**220,955**	**196,792**
Non-Current Liabilities		
Long-term revenue bonds, net	1,305,377	1,237,533
Other non-current liabilities	8,878	5,845
Deferred inflows of resources	7,270	3,964
Total Non-Current Liabilities	**1,321,525**	**1,247,342**
Current Liabilities		
Current maturities of revenue bonds	21,325	24,085
Current revenue bonds	-	37,000
Accounts payable	33,876	27,664
Accrued interest on revenue bonds	30,543	31,122
Accrued liabilities	12,442	9,765
Total Current Liabilities	**98,186**	**129,636**
	$1,640,666	**$1,573,770**

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,	2013	2012
Cash Flows From Operating Activities:		
Receipts from municipalities	$ 415,270	$ 392,205
Other operating receipts	3,168	6,589
Payments for purchased power	(181,752)	(181,992)
Payments for fuel	(65,972)	(60,282)
Payments for production	(21,991)	(15,163)
Payments for transmission and local facilities	(31,634)	(22,569)
Payments for other operating expenses	(6,570)	(7,463)
Payments for maintenance	(18,438)	(10,538)
Net cash provided by operating activities	92,081	100,787
Cash Flows From Capital And Related Finanacing Activities:		
Net additions to utility plant	(21,948)	(46,678)
Proceeds from issuance of long-term debt	113,985	59,921
Principal payments on long-term debt	(84,975)	(90,375)
Interest payments	(64,793)	(66,857)
Net cash used in capital and related financing activities	(57,731)	(143,989)
Cash Flows From Investing Activities:		
Investment purchases	(33,529)	(18,288)
Maturities and called investments	23,500	21,000
Interest income and other	5,958	7,133
Net cash provided by (used in) investing activities	(4,071)	9,845
Net Increase (Decrease) in Cash and Cash Equivalents	30,279	(33,357)
Cash and Cash Equivalents at Beginning of Year	148,917	182,274
Cash and Cash Equivalents at End of Year	$ 179,196	$ 148,917
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 81,696	$ 59,998
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	40,744	30,286
Future recoverable costs	(20,713)	13,492
Changes in current assets and liabilities:		
Municipality accounts receivable	(7,475)	(2,998)
Fuel stock and material inventory	(1,808)	1,325
Accounts payable	5,945	(847)
Other	(6,308)	(469)
Net cash provided by operating activities	$ 92,081	$ 100,787

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 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 943 megawatts (MW) or 79% of IMPA's 2013 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 serves 59 Indiana cities and towns and one Ohio village. IMPA began serving the Indiana towns of Coatesville, New Ross, Veedersburg and Williamsport (collectively with Montezuma, Indiana, the New Members) during 2012 and on January 25, 2013, IMPA's Board of Commissioners approved membership of the Town of Montezuma, Indiana effective January 1, 2013. IMPA entered into power sales contracts with the New Members to supply all power and energy used in the operation of their municipal electric system, similar to IMPA's existing power sales contracts.

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

Principles of Consolidation

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

Basis of Presentation

The Agency substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The 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 PSI (now known as DEI), a wholly-owned subsidiary of Duke Energy Corp.; (2) an undivided 12.88% ownership in the 511 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 1629 MW Prairie State Generating Company, LLC (PSGC or Prairie State) placed in service in 2012 and (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).

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 2.8% in 2013 and approximately 2.1% in 2012.

At December 31, 2013 and 2012, construction work in progress (CWIP) included construction costs for ongoing utility plant capital improvements. Units 1 and 2 of Prairie State went into service in June and November of 2012, respectively, and all associated development, construction, coal reserve and interest during construction were moved from CWIP to utility plant in service accordingly. During the year ended December 31, 2012, IMPA capitalized interest of $22.9 million into utility plant. No interest was capitalized during the year ended December 31, 2013.

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 also 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 and Capitalized Interest Funds include restricted proceeds from bonds issued for specified capital projects. The Revenue Fund, the General Reserve Fund and the Operation and Maintenance Fund are all unrestricted and are to be used for the operating needs of the Agency.

Restricted and Unrestricted Cash and Cash Equivalents

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

Restricted and Unrestricted Investments

IMPA classifies investments in U.S. Government agencies and commercial paper 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 liabilities (see Regulatory Assets and Liabilities). The fair value of a financial instrument is the amount at which an investment 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	2013	2012
Debt service net of debt costs and depreciation	$ 50,088	$ 35,085
Unaccreted premiums received on debt	1,454	2,096
Deferred energy efficiency costs	7,253	1,907
Valuation of inventories	-	(291)
Valuation of financial instruments	3,990	-
	$ 62,785	$ 38,797

Deferred Inflows of Resources	2013	2012
Reserve for contingencies	$ 4,440	$ 4,040
Net premiums and discounts on investments	1,215	1,796
Valuation of inventories	1,615	-
Valuation of financial statements	-	(1,872)
	$ 7,270	$ 3,964

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 $.3 million for 2013 and $.3 million for 2012.

Committed Line of Credit

IMPA has entered into a $50.0 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 (LOC). The Credit Agreement expires on May 23, 2016. At December 31, 2013 and 2012 IMPA had a $6.7 million and $4.0 million Letter of Credit (LOC) posted and no outstanding draws 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 budgeted 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 collected from members (a regulatory asset) at December 31, 2013 and 2012 was $14.2 million and $2.3 million, respectively. These amounts are billed over the subsequent six-month period. These regulatory assets are included in other current assets in the consolidated statements of net position at December 31, 2013 and 2012, 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, amortization of bond related costs, Build America Bond Subsidies and other non-operating revenues and expenses as previously defined in Operating Expenses.

ISC

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

Regional Transmission Organizations (RTOs)

IMPA is a transmission owning member of the 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.

Since inception, ISC, Inc. has qualified for income tax exemption as a public charity and was not required to file an income return because of its relationship with IMPA, Inc. In addition ISC, Inc. qualifies for income exclusion under Internal Revenue Code Section 115. A 2006 change in the Internal Revenue Code requires the filing of a Form 990 for ISC, Inc. to retain its tax exempt status. Going forward ISC, Inc. has decided not to incur the cost of filing a Form 990 and will rely on its exemption under Internal Revenue Code Section 115.

Related Parties

IMPA has been hired through a management services agreement to provide general management and administrative services 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 April 4, 2014, the issuance date of the consolidated financial statements.

Accounting Pronouncements Issued

In March 2012, GASB issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities*" (GASB 65), which is effective for periods beginning after December 15, 2012.

GASB has additionally issued the following statements: Statement No. 66, "*Technical Corrections – 2012*" (GASB 66), effective for periods beginning after December 15, 2012; Statement No. 67, "*Financial Reporting for Pension Plans*" (GASB 67), effective for periods beginning after June 15, 2013; Statement No. 68, "*Accounting and Financial Reporting for Pensions*" (GASB 68), effective for periods beginning after June 15, 2014; Statement No. 69, "*Government Combinations and Disposals of Government Operations*" (GASB 69), effective for periods beginning after December 15, 2013; and Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*" (GASB 70), effective for periods beginning after June 15, 2013. GASB 66, 67, 68, 69 or 70 do not have a material impact on the Agency.

2. Adoption of GASB 65

IMPA adopted GASB 65 during 2013 retroactive to January 1, 2012. The objective of GASB 65 is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b)recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The retroactive application of GASB 65 to the 2012 financial statements was not audited.

The impact on IMPA's consolidated statements of revenues, expenses and changes in net position for the years ended December 31, 2013 and 2012 and the consolidated statements of net position at December 31, 2013 and 2012 are set forth in the table below:

Consolidated Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended December 31,	2013			2012 (Unaudited)		
	Prior to Adoption of GASB 65	Change Resulting from Adoption of GASB 65	Subsequent to Adoption of GASB 65	Prior to Adoption of GASB 65	Change Resulting from Adoption of GASB 65	Subsequent to Adoption of GASB 65
Future recoverable costs	$ (20,713)	$ (217)	$ (20,930)	$ 13,492	$ 403	$ 13,895
Amortization (accretion) of debt costs	(363)	(734)	(1,097)	833	(838)	(5)
Other non-operating income	(1,782)	951	(831)	(565)	435	(130)
	$ (22,858)	**$ -**	**$ (22,858)**	**$ 13,760**	**$ -**	**$ 13,760**

Consolidated Statements of Net Position

December 31,	2013			2012 (Unaudited)		
	Prior to Adoption of GASB 65	Change Resulting from Adoption of GASB 65	Subsequent to Adoption of GASB 65	Prior to Adoption of GASB 65	Change Resulting from Adoption of GASB 65	Subsequent to Adoption of GASB 65
Regulatory Assets	$ 53,209	$ 9,576	$ 62,785	$ 29,176	$ 9,621	$ 38,797
Other	15,429	(9,576)	5,853	14,496	(9,621)	4,875
	$ 68,638	**$ -**	**$ 68,638**	**$ 43,672**	**$ -**	**$ 43,672**

3. Capital Assets

Capital asset activity for the years ended December 31, 2013 and 2012, was as follows (in thousands):

2013	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Utility plant in service	$ 1,449,324	$ 6,546	$ 20,524	$ (1,298)	$ 1,475,096
Construction work in progress	33,075	17,542	(20,524)	-	30,093
Total Utility Plant (Gross)	1,482,399	24,088	-	(1,298)	1,505,189
Less accumulated depreciation for utility plant in service	(283,603)	(40,744)	-	465	(323,882)
	$1,198,796	**$ 16,656**	**$ -**	**$ (833)**	**$ 1,181,307**

2012	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Utility plant in service	$ 694,472	$ 1,597	$ 754,344	$ (1,089)	$ 1,449,324
Construction work in progress	731,278	56,141	(754,344)	-	33,075
Total Utility Plant (Gross)	1,425,750	57,738	-	(1,089)	1,482,399
Less accumulated depreciation for utility plant in service	(253,853)	(30,286)	-	536	(283,603)
	$1,171,897	**$ 27,452**	**$ -**	**$ (553)**	**$ 1,198,976**

IMPA's ownership interest in Prairie State includes an interest in coal reserves with an original cost net of depletion of $10.3 and $10.5 million at December 31, 2013 and 2012, respectively.

4. 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, 2013 and 2012, IMPA recorded net decreases in the fair value of investments of $2.1 million and $1.7 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, 2013 and 2012 have been included in regulatory assets or liabilities on IMPA's consolidated balance sheets (see Note 1).

The Agency has a guaranteed investment contract with Societe Generale (GIC) that earns a fixed rate of 6.9%. A portion of the Debt Service Reserve Fund is invested in the GIC. The GIC

is evidenced by a repurchase agreement with the Trustee, The Bank of New York Company and is collateralized by investments in US government obligations. Societe Generale is rated A by Standard and Poor's as well as Fitch and A2 by Moody's. The GIC extends to 2016 and allows the Trustee to request immediate remittance of the funds for purposes set forth in the Resolution. As required by the Resolution, the Trustee has custody of collateral and securities. All of the Agency's investments are insured, registered or held by the Trustee in the Agency's name.

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, 2013 and 2012.

At December 31, 2013 and 2012, the original cost and the estimated fair values of the Agency's cash, cash equivalents and investments were as follows (in thousands):

	2013		2012	
INVESTMENT TYPE	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Long-Term Investments:				
Restricted:				
Investment Contracts	$ 39,289	$ 39,289	$ 39,289	$ 39,289
U.S. Government Agencies	44,774	46,005	38,620	38,819
Total Restricted	84,063	85,294	77,909	78,108
Unrestricted:				
U.S. Government Agencies	9,074	8,893	-	-
Total Long-Term Investments	$ 93,137	$ 94,187	$ 77,909	$ 78,108
Cash and Cash Equivalents:				
Restricted	$ 123,560	$ 123,560	$ 84,998	$ 84,998
Unrestricted	55,636	55,636	63,919	63,919
Total Cash and Cash Equivalents	$ 179,196	$ 179,196	$ 148,917	$ 148,917
Short-Term Investments:				
Restricted:				
U.S. Government Agencies	$ 18,331	$ 15,830	$ 24,827	$ 23,998
Total Short-Term Investments	$ 18,331	$ 15,830	$ 24,827	$ 23,998
Total	**$ 290,664**	**$ 289,213**	**$ 251,653**	**$ 251,023**

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, 2013 and 2012, the Agency's cash, cash equivalents and investments were restricted as follows (in thousands):

	2013		2012	
FUND	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Unrestricted:	$ 64,711	$ 64,529	$ 63,919	$ 63,919
Restricted by Board:				
Rate Stabilization Fund	20,232	19,884	19,006	18,862
Other Board Restricted	6,264	6,239	5,692	5,756
Restricted by Bond Resolution:				
Debt Service Reserve Fund	92,560	91,663	90,925	90,375
Debt Service Account	52,387	52,387	55,980	55,980
Construction	54,377	54,377	16,019	16,019
Other Restricted:	134	134	112	112
Total	**$ 290,665**	**$ 289,213**	**$ 251,653**	**$ 251,023**

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

5. Net Position

At December 31, 2013 and 2012, the Agency's net position included the following components (in thousands):

	2013	2012
Net investment in capital assets	$ (145,395)	$ (99,822)
Restricted for debt service	21,844	31,301
Restricted for debt service reserve	91,663	90,376
Restricted for bond financed construction projects and capitalized interest	54,377	9,575
Restricted by Board resolution	18,974	20,766
Unrestricted	179,492	144,596
	$ 220,955	**$ 196,792**

6. 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, 2013 and 2012 have been determined by management to be effective. Accordingly, IMPA's outstanding hedging transactions are reported in the Agency's December 31, 2013 and 2012 consolidated statements of net position at fair value. As of December 31, 2013, the Agency has recorded its outstanding hedge transactions in Accrued Liabilities ($1.0 million), with unrealized gains and losses in Other Current Assets ($1.0 million). As of December 31, 2012, the Agency has recorded its outstanding hedge transactions in Accrued Liabilities ($1.0 million) and Other Non-current Liabilities ($1.1 million), with unrealized gains and losses in Other Current Assets ($1.0 million) and Other Deferred Costs ($1.1 million). 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, 2013 and 2012. 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.

The following tables provide information related to IMPA's outstanding hedging transactions as of December 31, 2013 and 2012 (in thousands). Credit ratings listed are Standard and Poor's and Moody's respectively.

December 31, 2013

Counterparty Credit Rating	Trade Date Range From	Trade Date Range To	Duration From	Duration To	Notional Amount (MWhs)	Fair Value	Change in Fair Value During 2013
A-/A3	Aug 2010	Dec 2011	Jan 2013	Dec 2014	88	$(3,069)	$3,807
Settled during 2013					-	-	623
						$(3,069)	$4,430

December 31, 2012

Counterparty Credit Rating	Trade Date Range From	Trade Date Range To	Duration From	Duration To	Notional Amount (MWhs)	Fair Value	Change in Fair Value During 2013
A/A3	Aug 2010	Dec 2011	Jan 2013	Dec 2014	201	$(6,876)	$(5,736)
A/A2	May 2012	May 2012	Jan 2013	Feb 2013	17	(623)	95
BBB/Baa2	Dec 2011	Dec 2011	Jan 2012	Jan 2012	17	-	6
					235	$(7,499)	$(5,635)

Credit Risk

IMPA is exposed to credit risk on hedging transactions that are in an asset position. To minimize IMPA's exposure to loss related to credit risk, IMPA requires certain counterparties to post collateral equal to the fair value of hedging transactions in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit profile fall below contractually agreed upon parameters. Collateral posted is in the form of a letter of credit or US dollars held by the Agency. IMPA's net exposure has never warranted that the Agency require the posting of collateral from any of its counterparties.

It is IMPA's practice to enter into netting arrangements whenever it has entered into more than one financially settled forward power contract transaction with a counterparty. If one party becomes insolvent or defaults on its obligations, closeout netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed to or owed by, the non-defaulting party.

The aggregate fair value of outstanding hedging transactions in liability positions at December 31, 2013 and 2012 is, $1.0 million and $2.1 million, respectively. There are no outstanding hedging transactions in an asset position at December 31, 2013 and 2012.

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, 2013 and 2012, the Indiana Hub price was $35.11 and $28.36 per MWh and the AEP-Dayton Hub price was $35.86 per MWh and $30.31 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 aggregate contracts with that counterparty. To minimize IMPA's exposure to loss related to termination risk, the Agency requires counterparties to post collateral equal to the fair value of hedging transactions in asset positions (net of the effect of applicable netting arrangements) should the fair value of the netted contracts exceed contractually agreed upon parameters or if certain counterparty's credit ratings fall below contractually agreed upon levels. If at the time of termination, the net position of financially settled power contracts with a terminating party is in an aggregated liability position, IMPA would be liable to the counterparty for a payment equal to the aggregated liability position, subject to netting arrangements.

Commitments

All of IMPA's hedging transactions require the Agency to post collateral in the event that 1) IMPA's credit profile falls below contractually agreed parameters that have been negotiated

with each counterparty or 2) the fair value of IMPA's outstanding hedging transactions are in a liability position (net of the effect of applicable netting arrangements). When collateral is posted, it is in US dollars in the amount of the fair value of the hedging derivative instruments in liability positions net of the effect of applicable netting arrangements. If IMPA does not post collateral, the aggregate outstanding hedging transaction may be terminated by the counterparty. If the collateral posting requirements related to IMPA's credit profile had been triggered at December 31, 2013 and 2012, IMPA would not have been required to post collateral with its counterparties, as IMPA was below each counterparty's collateral posting threshold.

7. 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, 2013 and 2012, consist of the following (in thousands):

Bond Series	Interest Rates	Due Date January 1,	Optional Redemption Date January 1,	2013	2012
1993 Series B	5.500 - 6.000%	2010 to 2016		$ 51,135	$ 70,040
1998 Series A	Variable	2018		37,000	37,000
2002 Series B	5.000 - 5.250%	2010 to 2028	2013	-	4,000
2004 Series A	4.375 - 5.000%	2024 to 2032	2015	43,840	43,840
2006 Series A	4.500 - 5.000%	2019 to 2032	2016	171,205	171,205
2007 Series A	4.500 - 5.000%	2023 to 2042	2017	403,575	403,575
2007 Series B	5.800%	2022		20,125	20,125
2009 Series A	3.000 - 5.000%	2010 to 2029	2019	28,225	29,405
2009 Series B	5.250 - 6.000%	2024 to 2039	2019	133,510	194,400
2009 Series C	7.350%	2019 to 2024		16,035	16,035
2010 Series A	5.594%	2042		123,640	123,640
2010 Series B	5.000%	2020 to 2023	2021	20,235	20,235
2011 Series A	5.000%	2016 to 2042	2022	87,355	87,355
2012 Series A	4.000% - 5.000%	2016 to 2028	2022	51,130	51,130
2013 Series A	3.000% - 5.250%	2017 to 2042	2023	108,400	-
				1,295,410	1,271,985
Less current revenue bonds				-	(37,000)
Less current maturities				(21,325)	(24,085)
Long-term revenue bonds				1,274,085	1,210,900
Unamortized premium, net				31,292	26,633
				$ 1,305,377	$ 1,237,533

The 1993 Series B Bonds, the 2007 Series B Bonds and 2009 Series C Bonds are non-callable. The 1998 Series A 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. 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, 2013 were as follows (in thousands):

	Principal	Interest
2014	$ 21,325	$ 64,213
2015	29,155	64,446
2016	24,865	62,848
2017	24,680	62,110
2018	25,255	61,477
2019 - 2023	143,510	289,859
2024 - 2028	185,255	248,105
2029 - 2033	237,255	195,849
2034 - 2038	302,545	128,512
2039 - 2042	301,565	40,186
	$ 1,295,410	$ 1,217,605

Long-term revenue bond activity for the periods ended December 31, 2013 and 2012, was as follows (in thousands):

December 31, 2013	Beginning Balance	Additions	Reductions	Reclassification	Ending Balance
Long-term revenue bonds	$ 1,234,985	$ 108,400	$ (84,975)	$ 37,000	$ 1,295,410
Less:					
Current maturities	(24,085)	24,085	(21,325)	-	(21,325)
Unamortized premium, net	26,633	6,397	(1,738)	-	31,292
	$1,237,533	$ 138,882	$(108,038)	$ 37,000	$ 1,305,377

December 31, 2012	Beginning Balance	Additions	Reductions	Reclassification	Ending Balance
Long-term revenue bonds	$ 1,311,230	$ 51,130	$ (90,375)	$ (37,000)	$ 1,234,985
Less:					
Current maturities	(25,730)	25,730	(24,085)	-	(24,085)
Unamortized premium, net	20,866	9,226	(3,459)	-	26,633
	$1,306,366	$ 86,086	$(117,919)	$ (37,000)	$1,237,533

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 1.28 times for 2013 and 2012. Debt service coverage for 2013 was calculated based on approximately $21.3 million of principal payable on January 1, 2014 and approximately $64.2 million of 2013 interest expense payable during 2013 and on January 2, 2014. Management believes that IMPA is in compliance with all financial debt covenants and restrictions as of December 31, 2013.

Refunding of 2002 Series B Bonds

During 2012, the Agency issued the 2012 Series A Bonds for the purpose of refunding the 2002 Series B Bonds. The refunding of the 2002 Series B Bonds resulted in a reduction of future debt service of approximately $12.2 million. The present value of the reduction in debt service is approximately $10.5 million.

2013 Series A Bonds

On November 21, 2013, the Agency issued the 2013 Series A Bonds of $108.4 million to finance ongoing capital improvements to the Power Supply System and for the purpose of refunding the principal amount of the 2009 Series B Bonds maturing on January 1, 2034. The partial refunding of the 2009 Series B Bonds resulted in a reduction of future debt service of approximately $10.4 million. The present value of the reduction in debt service is approximately $6.5 million.

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. While these bonds do not have a contractual maturity until January 1, 2018, as noted above, the underlying letter of credit at December 31, 2012 was due to expire November 12, 2013. Accordingly, IMPA classified the 1998 Series A Bonds as current revenue bonds on the consolidated statement of net position at December 31, 2012. During 2013, the existing letter of credit was extended to November 11, 2016. Accordingly, IMPA reclassified the 1998 Series A Bonds to long-term revenue bonds as of December 31, 2013 on the consolidated statements of net position. The variable interest rate is adjusted weekly by the remarketing agent to reflect current market rates. The interest rate at December 31, 2013 on the 1998 Series A Bonds was 0.06%.

Fair Value of Long-Term Revenue Bonds

Long-term revenue bonds are recorded at amortized cost. The estimated fair value of long-term revenue bonds is approximately $1.3 and $1.4 billion at December 31, 2013 and 2012, respectively. IMPA used over-the-counter broker quotes to estimate the fair value of these bonds which are corroborated by similar transactions for similar securities.

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 net income 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, 2013 and 2012 (in thousands):

	Beginning Balance	Liabilities Incurred	Liabilities Settled	Accretion	Cash Flow Revisions	Ending Balance
2013	$ 4,302	-	-	223	3,758	$ 8,283
2012	$ 3,427	701	-	110	64	$ 4,302

9. Arbitrage

A rebate payable to the Internal Revenue Service (IRS) generally results from the investment of bond proceeds at a higher rate of interest than the cost of borrowing. The excess of interest income over cost of borrowing is payable to the IRS within five years of the date of the bond offering and every five years thereafter. The estimated current arbitrage liability at December 31, 2012, was $0.6 million. There is no estimated current arbitrage liability at December 31, 2013. The estimated non-current arbitrage liability at December 31, 2013 and 2012 was approximately $0.6 and $0.5 million, respectively, and is 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% and 29% of the Agency's sales to municipalities were provided to two communities for the period ended December 31, 2013 and 2012, respectively. Accounts receivable balances for the two communities account for 29% and 31% of the total accounts receivable balances as of December 31, 2013 and 2012, respectively. IMPA has long-term energy purchase contracts with two suppliers that account for approximately 36% and 35% of IMPA's total energy for the years ended December 31, 2013 and 2012, respectively.

11. Jointly-Owned Plant

IMPA is a joint owner of Gibson Unit 5 with DEI and WVPA. The Agency jointly owns Trimble County Unit 1 and Unit 2 with LG&E and the Illinois Municipal Electric Agency (IMEA). IMPA co-owns certain transmission property and local facilities with DEI, DEO and WVPA. These facilities constitute part of the integrated transmission and distribution systems (JTS) operated and maintained by DEI and DEO. IMPA's portion of all operating costs associated with the commonly-owned facilities is reflected in the consolidated financial statements.

IMPA is part of a consortium known as the Prairie State Generating Company, LLC. The Prairie State Generating Company, LLC includes contiguous coal reserves and a mine portal to supply coal to the power plant. Prairie State Units 1 and 2 and the coal mine commenced commercial operation in 2012.

IMPA's investments in jointly-owned plant at December 31, 2013 were as follows (in thousands):

	Share	Utility Plant In Service	Accumulated Depreciation
Production			
Gibson Unit 5	24.95%	$ 162,703	$ 86,833
Prairie State Units 1 & 2	12.64%	739,056	29,923
Trimble County Units 1 & 2	12.88%	288,014	71,370
Transmission and local facilities	4.83%	103,761	40,725

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, 2013 is approximately $141.6 million for 2014 and $2.5 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, combustion turbines, the JTS and other ongoing system projects to total approximately $121.3 million for the years 2014 through 2018. The projected capital expenditures are of a normal and recurring nature. IMPA has also estimated environmental capital improvements from 2014 through 2018 of approximately $104.6 million but continues to fully assess this with the co-owners of Gibson Unit 5 and Trimble County Unit 1. IMPA believes that the amount may be significantly reduced depending on a final assessment of all alternatives to meet new Environmental Protection Agency (EPA) requirements. 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 final EPA Mercury and Air Toxics rule (MATS) became effective April 16, 2012 and is applicable to coal- and oil-fired generating units greater than 25 MW. The rule was reconsidered and updated in April 2013 with revised emission limits for new or reconstructed units. This rule sets new emission limits for hazardous air pollutants (HAPS), including mercury, particulate matter (PM), and hydrochloric acid (HCl). The full implementation date of this rule is April 16, 2015 (3 years after the effective date). A one year extension can be granted by the permitting authority to sources undertaking environmental upgrade projects. This rule is intended to address HAPs, including mercury, from coal and oil-fired electric generating units by requiring the use of maximum achievable control technology. This rule will require capital additions to Gibson 5 and Trimble County Unit 1. Both Gibson 5 and Trimble County Unit 1 applied for and received one year extensions.

The US Supreme Court granted the EPA's petition for review of the CD Circuit Court of Appeals 2012 order vacating the Cross State Air Pollution Rule (CSAPR). A ruling on CSAPR by the Supreme Court is expected by June 2014.

IMPA is presently expecting the EPA to issue final rules and standards pertaining to cooling water intake structures, coal combustion residuals, national ambient air quality standards for ozone, carbon dioxide new source performance standards for greenhouse gases for existing plants, and effluent limitation guidelines.

Management, along with the Agency's joint partners, continues to evaluate the impact of MATS and potentially CSAPR along with other regulatory rules, standards and other changes on IMPA's utility plant.

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. IMPA has received no further requests or communications from the SEC. The Agency cannot predict the ultimate outcome of this investigation. As of the report issuance date, IMPA management does not believe this investigation will have a material impact on IMPA's financial position or operating results.