Indiana Municipal Power Agency

Consolidated Interim Financial Statements as of June 30, 2019 and for the Six Months ended June 30, 2019 and 2018 (Unaudited)

Indiana Municipal Power Agency

Consolidated Interim Financial Statements as of June 30, 2019 and for the Six Months ended June 30, 2019 and 2018

Table of Contents

REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners of
Indiana Municipal Power Agency:

We have reviewed the accompanying consolidated interim financial information of Indiana Municipal Power Agency and its subsidiary (the "Agency"), which comprise the consolidated statement of net position as of June 30, 2019, and the related consolidated statements of revenues, expenses and changes in net position and of cash flows for the six-month periods ended June 30, 2019 and 2018.

Management's Responsibility for the Consolidated Interim Financial Information

The Agency's management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of net position of Indiana Municipal Power Agency and its subsidiary as of December 31, 2018, and the related consolidated statements of revenues, expenses, and changes in net position and of cash flows for the year then ended (not presented herein), and in our report dated April 5, 2019 which included a paragraph with respect to the limited procedures we performed over the required supplemental information, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of net position as of December 31, 2018, is consistent, in all material respects, with the audited consolidated statement of net position from which it has been derived.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Columbus, Ohio
September 20, 2019

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

For the Six Months Ended June 30,	2019	2018
Operating Revenues		
Sales to municipalities	$ 217,877	$ 227,865
Other revenues	3,645	3,187
Total Operating Revenues	**221,522**	**231,052**
Operating Expenses		
Purchased power	71,587	78,311
Fuel	31,934	30,053
Production	14,546	13,685
Transmission and local facilities	19,993	22,104
Other operating	8,982	7,924
Maintenance	9,634	12,325
Depreciation	21,801	21,780
Future recoverable costs	7,991	6,251
Total Operating Expenses	**186,468**	**192,433**
Operating Income	**35,054**	**38,619**
Non-Operating Expenses (Income)		
Interest expense	29,261	29,887
Accretion of premiums received on debt	(3,842)	(3,876)
Interest income	(3,329)	(1,990)
Other non-operating income	(867)	(819)
Total Non-Operating Expenses (Income)	**21,223**	**23,202**
Change in Net Position	**13,831**	**15,417**
Net Position at Beginning of Year	**360,593**	**323,016**
Net Position at June 30	**$ 374,424**	**$ 338,433**

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

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

	(Unaudited) June 2019	December 2018
Assets		
Utility Plant		
Utility plant in service	$ 1,662,257	$ 1,659,493
Less: accumulated depreciation	(539,343)	(518,242)
	1,122,914	1,141,251
Construction work in progress	124,160	92,306
Total Utility Plant, Net	**1,247,074**	**1,233,557**
Long-Term Investments	**73,059**	**82,474**
Restricted Cash and Cash Equivalents	**90,363**	**93,957**
Current Assets		
Unrestricted cash and cash equivalents	143,486	166,128
Short-term investments	23,134	15,918
Municipality accounts receivable	71,101	65,273
Fuel stock and material inventory	22,461	21,188
Other current assets	33,086	25,444
Total Current Assets	**293,268**	**293,951**
Deferred Outflows		
Regulatory assets	83,242	93,301
Other	97,749	88,282
Total Deferred Outflows	**180,991**	**181,583**
Total Assets	**$ 1,884,755**	**$ 1,885,522**
Net Position and Liabilities		
Net Position		
Net investment in capital assets	$ (73,678)	$ (118,759)
Restricted	134,557	143,133
Unrestricted	313,545	336,219
Total Net Position	**374,424**	**360,593**
Non-Current Liabilities		
Long-term revenue bonds, net	1,295,881	1,329,922
Other non-current liabilities	32,523	26,298
Total Non-Current Liabilities	**1,328,404**	**1,356,220**
Current Liabilities		
Current maturities of revenue bonds	28,770	26,645
Accounts payable	38,474	25,970
Accrued interest on revenue bonds	28,797	29,466
Accrued liabilities	62,684	66,878
Total Current Liabilities	**158,725**	**148,959**
Deferred Inflows of Resources	**23,202**	**19,750**
Total Net Position and Liabilities	**$ 1,884,755**	**$ 1,885,522**

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

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

For the Six Months Ended June 30,	2019	2018
Cash Flows From Operating Activities:		
Receipts from municipalities	$ 208,184	$ 210,272
Other operating receipts	3,645	3,187
Payments for purchased power	(66,099)	(73,347)
Payments for fuel	(33,905)	(33,429)
Payments for production	(15,770)	(13,387)
Payments for transmission and local facilities	(15,684)	(18,066)
Cash deposits as collateral	(7,111)	3,635
Payments for other operating expenses	(9,020)	(7,540)
Payments for maintenance	(9,284)	(13,920)
Net cash provided by operating activities	**54,956**	**57,405**
Cash Flows From Capital And Related Financing Activities:		
Net additions to utility plant	(35,972)	(41,536)
Proceeds from sale of capital assets	2,040	3,277
Principal payments on long-term debt	(26,645)	(26,060)
Interest payments	(29,930)	(24,594)
Net cash used in capital and related financing activities	**(90,507)**	**(88,913)**
Cash Flows From Investing Activities:		
Investment purchases	(21,377)	(59,700)
Maturities and called investments	25,349	35,247
Interest income and other	5,343	2,688
Net cash provided by (used in) investing activities	**9,315**	**(21,765)**
Net Decrease in Cash and Cash Equivalents	**(26,236)**	**(53,273)**
Restricted and Unrestricted Cash and Cash Equivalents:		
Balances at Beginning of Year	**260,085**	**262,024**
Balances at June 30	**$ 233,849**	**$ 208,751**

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

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

For the Six Months Ended June 30,	**2019**	**2018**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 35,054	$ 38,619
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	21,801	21,780
Future recoverable costs	7,991	6,251
Changes in current assets and liabilities:		
Municipality accounts receivable	(5,828)	(10,429)
Fuel stock and material inventory	(1,273)	(2,927)
Accounts payable	5,211	(8,093)
Other	(8,000)	12,204
Net cash provided by operating activities	**$ 54,956**	**$ 57,405**

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 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 "Power Sales Contracts"). The members resell the power to retail customers within their respective municipal service territories. IMPA's owned generating capacity is 959 megawatts (MW) or 80% of IMPA's 2018 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% at June 30, 2019 and 2.6% at December 31, 2018.

IMPA's ownership interest in Prairie State includes an interest in coal reserves with an original cost net of depletion of $8.7 million and $8.9 million at June 30, 2019 and December 31, 2018, respectively.

At June 30, 2019 and December 31, 2018, construction work in progress (CWIP) included construction costs for ongoing utility plant capital improvements.

Solar Park Purchase Power Agreements

IMPA has entered into purchase power agreements whereby IMPA has agreed to purchase all of the output from certain solar generation facilities (Solar Parks) located in IMPA member communities. The Solar Parks were all engineered, procured and constructed by IMPA. All purchase power contracts are for 25 years from when the respective Solar Park went into commercial operation. The purchase power contract for one solar park with a capacity of approximately 5 MW is a prepaid purchase power agreement and provides IMPA an option to buy the Solar Park at 5 ½ years after commercial operation.

The remaining Solar Park purchase power agreements, with a total capacity of approximately 29 MW, provide IMPA an option to buy the Solar Parks after six years. As part of these agreements, IMPA loaned the respective purchaser a portion of the engineering, procurement and construction price.

The prepaid purchase power and the notes receivable are included in Other Deferred Outflows on the Consolidated Statements of Net Position.

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 and treasury securities 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	**June 2019**	**December 2018**
Debt service net of related depreciation and amortization	$ 77,088	$ 85,039
Capital assets associated with asset retirement obligations	3,899	4,251
Net valuation of financial instruments	2,255	4,011
	$ 83,242	**$ 93,301**

Deferred Inflows of Resources	**June 2019**	**December 2018**
Reserve for contingencies	$ 20,537	$ 17,049
Valuation of inventories	2,665	2,701
	$ 23,202	**$ 19,750**

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.

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 June 30, 2019 and December 31, 2018, IMPA had posted letters of credit totaling $10.0 and $6.0 million, respectively. The Credit Agreement is subordinated to IMPA's long-term revenue bonds, see Note 6, Long-Term Revenue Bonds. The Credit Agreement provides that PNC Bank may only require repayment prior to expiration if certain terms of default occur.

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 members via a tracker in subsequent periods. The amount to be paid to members (a regulatory liability) at June 30, 2019 and December 31, 2018 was $54.3 million and $58.2 million, respectively. The regulatory liability is included in accrued liabilities in the consolidated statements of net position.

Operating Revenues

Operating revenues include sales to municipalities and other revenues. These descriptions of operating revenues reflect how economic factors affect the nature, amount, timing and uncertainty of revenues and cash flows. The Power Sales Contracts are the underlying agreements for IMPA's revenues from sales to members. Under the Power Sales Contracts, IMPA's performance obligation is to deliver electricity to member communities. Member communities consume electricity upon delivery and payment for electricity consumed is due within 30 days of receipt of invoice. There are no significant judgments in determining or allocating the transaction price. IMPA does not have any material contract assets or liabilities. IMPA does not incur any material costs to obtain or fulfill contracts with customers.

Operating Expenses

IMPA's 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.

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.

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 qualifies for federal income tax exclusion under Internal Revenue Code section 115. IMPA Service Corp is exempt from federal income tax under Internal Revenue Code section 501 (a) as a 501 (c) (3) organization.

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.

Accounting Pronouncements Issued

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.

IMPA adopted ASU2016-18 and Topic 606 for the period ending December 31, 2018. ASU 2016-18 and Topic 606 do not have a material impact on IMPA's consolidated financial statements.

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.

During 2018, the GASB issued Statement No. 88, *"Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements"* (GASB 88). GASB 88 defines debt and requires additional debt related disclosures in the notes of the financial statements.

During 2018, the GASB issued Statement No. 90, *"Majority Equity Interest"* (GASB 90). GASB 90 establishes certain reporting requirements for a majority equity interest in a legally separate organization and for certain component units.

IMPA adopted GASB 83, 88 and 90 for the period beginning January 1, 2019. GASB 83, 88 and 90 do not have a material impact on IMPA's consolidated financial statements.

During 2018, the GASB issued Statement No. 89, *"Accounting for Interest Cost Incurred before the End of a Construction Period"* (GASB 89). GASB 89 establishes certain accounting requirements for interest cost incurred before the end of a construction period. GASB 89 is effective for reporting periods beginning after December 15, 2019. IMPA does not believe that GASB 91 will have a material impact on IMPA's consolidated financial statements.

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. The reclassification had no effect on the previously reported change in net position.

2. Capital Assets

Capital asset activity for the years ended June 30, 2019 and December 31, 2018, was as follows (in thousands):

June 2019	**Beginning Balance**	**Additions**	**Transfers**	**Retirements**	**Other**	**Ending Balance**
Utility plant in service	$ 1,659,493	$ 1,362	$ 2,204	$ (802)	$ -	$ 1,662,257
Construction work in progress	92,306	41,815	(2,204)	(7,757)	-	124,160
Total Utility Plant (Gross)	1,751,799	43,177	-	(8,559)	-	1,786,417
Less accumulated depreciation for utility plant in service	(518,242)	(21,802)	-	349	352	(539,343)
	$1,233,557	**$ 21,375**	**$ -**	**$ (8,210)**	**$ 352**	**$ 1,247,074**

2018	**Beginning Balance**	**Additions**	**Transfers**	**Retirements**	**Other**	**Ending Balance**
Utility plant in service	$ 1,653,228	$ 1,523	$ 21,536	$ (5,200)	$(11,594)	$ 1,659,493
Construction work in progress	62,136	70,717	(21,536)	(19,011)	-	92,306
Total Utility Plant (Gross)	1,715,364	72,240	-	(24,211)	(11,594)	1,751,799
Less accumulated depreciation for utility plant in service	(484,130)	(43,676)	-	2,744	6,820	(518,242)
	$1,231,234	**$ 28,564**	**$ -**	**$ (21,467)**	**$ (4,774)**	**$ 1,233,557**

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 period ended June 30, 2019 and the year ended December 31, 2018, IMPA recorded net increases in the fair value of investments of $1.8 million and $0.2 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 June 30, 2019 and December 31, 2018 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 June 30, 2019 and December 31, 2018, the original cost and the estimated fair values of the Agency's cash, cash equivalents and investments were as follows (in thousands):

	2019		2018	
INVESTMENT TYPE	**Cost**	**Estimated Fair Value**	**Cost**	**Estimated Fair Value**
Long-Term Investments:				
Restricted:				
U.S. Government Agencies	$ 24,168	$ 25,079	$ 59,004	$ 58,012
U.S. Treasuries	47,991	47,980	24,168	24,462
Total Long-Term Investments	72,159	73,059	83,172	82,474
Restricted and Unrestricted Cash and Cash Equivalents:				
Restricted	90,363	90,363	93,957	93,957
Unrestricted	143,486	143,486	166,128	166,128
Total Restricted and Unrestricted Cash and Cash Equivalents	233,849	233,849	260,085	260,085
Short-Term Investments:				
Restricted:				
U.S. Government Agencies	16,080	15,965	16,113	15,918
U.S. Treasuries	7,129	7,169	-	-
Total Short-Term Investments	23,209	23,134	16,113	15,918
Total	**$ 329,217**	**$ 330,042**	**$ 359,370**	**$ 358,477**

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 June 30, 2019 and December 31, 2018, the Agency's cash, cash equivalents and investments were restricted as follows (in thousands):

	2019		2018	
FUND	**Cost**	**Estimated Fair Value**	**Cost**	**Estimated Fair Value**
Unrestricted:	$ 143,486	$ 143,486	$ 166,128	$ 166,128
Restricted by Board:				
Rate Stabilization Fund	27,382	27,573	26,383	26,171
Other Board Restricted Accounts	32,444	32,621	27,977	27,953
Restricted by Bond Resolution:				
Debt Service Reserve Fund	82,625	83,044	82,671	82,014
Debt Service Account	43,280	43,318	56,211	56,211
Total	**$ 329,217**	**$ 330,042**	**$ 359,370**	**$ 358,477**

4. Net Position

At June 30, 2019 and December 31, 2018, the Agency's net position included the following components (in thousands):

	2019	2018
Net investment in capital assets	$ (73,678)	$ (118,759)
Restricted for debt service	14,522	26,745
Restricted for debt service reserve	83,044	82,014
Restricted by Board resolution	36,991	34,374
Unrestricted	313,545	336,219
	$ 374,424	**$ 360,593**

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 June 30, 2019 and December 31, 2018 have been determined by management to be effective. Accordingly, IMPA's outstanding hedging transactions are reported in the Agency's June 30, 2019 and December 31, 2018 consolidated statements of net position at fair value. The fair market value for each of IMPA's hedging transactions has 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 June 30, 2019 and December 31, 2018. 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 June 30, 2019, the Agency has recorded unrealized gains and losses in other current assets of approximately $3.6 million, deferred outflows of approximately $17.5 million, and other non–current liabilities of approximately $44 thousand. As of December 31, 2018, the Agency has recorded unrealized gains and losses in other current assets of approximately $1.8 million, deferred outflows of approximately $11.3 million, other non–current liabilities of approximately $1.3 million and accrued liabilities of approximately $26 thousand.

The following tables provide information related to IMPA's outstanding derivative instruments as of June 30, 2019 and December 31, 2018 (in thousands).

June 30, 2019

Trade Date Range	Duration	Notional Amount (MWhs)	Ending Fair Value	
			Classification	Amount
Dec 2014 thru Apr 2019	Jul 2019 thru Jun 2020	850	Accrued Liabilities	$ (3,606)
Dec 2014 thru Mar 2017	Jul 2020 thru Dec 2026	6,650	Other non-current liabilities	(17,479)
Mar 2017	Jan 2022 thru Jan 2026	250	Deferred outflows	44
		7,750		**$ (21,041)**

December 31, 2018

Trade Date Range	Duration	Notional Amount (MWhs)	Ending Fair Value	
			Classification	Amount
Dec 2014 thru Aug 2018	Jan 2019 thru Dec 2019	675	Accrued liabilities	$ (1,766)
Oct 2016 thru Aug 2018	Jul 2019	50	Other current assets	26
Dec 2014 thru Mar 2017	Jan 2020 thru Dec 2026	6,000	Other non-current liabilities	(11,255)
Mar 2017	Jul 2021 thru Jul 2026	1,200	Deferred outflows	1,255
		7,925		**$ (11,740)**

Credit Risk

All of IMPA's hedging transactions were transacted on 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 financially settled forward power contracts.

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 June 30, 2019 and December 31, 2018, the Indiana Hub price was $24.58 and $34.46 per MWh and the AEP-Dayton Hub price was $22.68 and $32.54 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 $23.7 and $16.6 million posted as collateral at June 30, 2019 and December 31, 2018, 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 June 30, 2019 and December 31, 2018, consist of the following (in thousands):

Bond Series	Interest Rates	Due Date January 1,	Optional Redemption Year	2019	2018
2007 Series B	5.800%	2019 to 2022		$ 15,510	$ 20,125
2009 Series C	7.350%	2019 to 2024		14,410	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%	2019 to 2021		13,915	19,835
2012 Series A	4.000% - 5.000%	2019 to 2028	2022	23,960	29,015
2013 Series A	3.000% - 5.250%	2019 to 2042	2023	27,015	28,505
2014 Series A	5.000%	2019 to 2032	2025	162,925	167,730
2015 Series A	Variable	2019 to 2042		37,175	38,155
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%	2019 to 2039	2027	145,585	146,970
2017 Series A	5.000%	2019 to 2042	2028	221,835	222,605
				1,196,780	1,223,425
Less current maturities				(28,770)	(26,645)
Long-term revenue bonds				1,168,010	1,196,780
Unamortized premium, net				127,871	133,142
				$1,295,881	**$ 1,329,922**

The 2007 Series B, 2009 Series C, and the 2011 Series A Bonds are non-callable. The 2015 Series A and the 2016 Series B Bonds are currently callable at a redemption price of 100%. The 2010 Series A Bonds are designated as direct payment Build America Bonds and have make-whole optional redemption and extraordinary optional redemption provisions.

All other bonds are callable on or after January 1 of the optional redemption year at a redemption price of 100%, with the exception of the 2012 Series A Bonds. The 2012 Series A Bonds maturing on or after January 1, 2024 are callable on or after July 1, 2022 at a redemption price of 100%.

Debt service requirements based on contractual maturities at June 30, 2019 were as follows (in thousands):

	Principal	Interest
2020	$ 28,770	$ 59,859
2021	30,230	58,401
2022	31,815	56,814
2023	33,485	55,144
2024	35,320	53,309
2025 - 2029	204,925	238,231
2030 - 2034	260,385	182,765
2035 - 2039	330,950	112,201
2040 - 2042	240,900	24,993
	$ 1,196,780	**$ 841,717**

Long-term revenue bond activity for the periods ended June 30, 2019 and December 31, 2018, was as follows (in thousands):

June 30, 2019	**Beginning Balance**	**Additions**	**Reductions**	**Ending Balance**
Long-term revenue bonds	$ 1,223,425	$ -	$ (26,645)	$ 1,196,780
Less:				
Current maturities	(26,645)	26,645	(28,770)	(28,770)
Unamortized premium, net	133,142	-	(5,271)	127,871
	$ 1,329,922	**$ 26,645**	**$ (60,686)**	**$ 1,295,881**

December 31, 2018	**Beginning Balance**	**Additions**	**Reductions**	**Ending Balance**
Long-term revenue bonds	$ 1,249,485	$ -	$ (26,060)	$ 1,223,425
Less:				
Current maturities	(26,060)	26,060	(26,645)	(26,645)
Unamortized premium, net	143,771	-	(10,629)	133,142
	$ 1,367,196	**$ 26,060**	**$ (63,334)**	**$ 1,329,922**

Certain Debt Covenants

IMPA's long-term revenue bonds are payable from and secured by a pledge of and security interest in all revenues, income, rents and receipts attributable to the Agency's ownership and operation of IMPA's power supply system and certain funds established by the Bond Resolution including IMPA's Unrestricted and Restricted By Bond Resolution funds, see Note 3, Cash, Cash Equivalents and Investments. IMPA's Members, the State of Indiana nor any political subdivision of Indiana are obligated to pay the debt service on IMPA's long-term revenue bonds.

The Bond Resolution has no subjective acceleration provisions or events of default that change the timing of repayment. In addition to the Bond Resolution, the 2015 Series A Bonds have a bondholder agreement that provides that Citibank may only require repurchase if certain terms of default occur.

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 1.29 times and 1.41 times for June 30, 2019 and December 31, 2018, respectively. Debt service coverage for December 31, 2018 was calculated based on approximately $26.6 million of principal payable in January 2019, approximately $59.8 million of 2018 interest expense payable during 2018 and in January 2019, net of approximately $2.0 million transferred during 2018 to the Rate Stabilization Fund. Management believes that IMPA is in compliance with all financial debt covenants and restrictions as of June 30, 2019.

1998 Series A Variable Rate Bonds

The 1998 Series A Bonds matured on January 1, 2018.

2010 Series A Build America Bonds (BAB)

During the period ended June 30, 2019, IMPA accrued a BAB subsidy of approximately $1.1 million that was received in July, 2019. During the year ended December 31, 2018, IMPA received BAB subsidy 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 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. The interest rate on the 2015 Series A Bonds was 2.3% at June 30, 2019.

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 June 30, 2019 on the 2016 Series B Bonds was 1.92%.

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 financially settled forward power contracts, 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 June 30, 2019 and December 31, 2018. 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 June 30, 2019 and December 31, 2018 were as follows (in thousands):

June 30, 2019	**Level 1**	**Level 2**	**Total**
Assets:			
Money market funds	$ 194,726	$ -	$ 194,726
Debt securities	-	96,193	96,193
Purchase power futures	-	44	44
	$ 194,726	**$ 96,237**	**$ 290,963**
Liabilities:			
Purchase power futures	**$ -**	**$ 21,085**	**$ 21,085**

December 31, 2018	**Level 1**	**Level 2**	**Total**
Assets:			
Money market funds	$ 197,731	$ -	$ 197,731
Debt securities	-	98,392	98,392
Purchase power futures	-	1,282	1,282
	$ 197,731	**$ 99,674**	**$ 297,405**
Liabilities:			
Purchase power futures	**$ -**	**$ 13,021**	**$ 13,021**

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 estimated annually during the fourth quarter of the year and 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 lives. 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 period ended June 30, 2019 and the year ended December 31, 2018 (in thousands):

	Beginning Balance	Liabilities Settled	Accretion	Cash Flow Revisions	Ending Balance
2019	$ 11,655	(51)	249	-	$ 11,853
2018	$ 15,359	(1,463)	646	(2,887)	$ 11,655

IMPA's share of the asset retirement obligations for the Agency's jointly-owned generation at June 30, 2019 and December 31, 2018 was as follows (in thousands):

	2019	2018
Gibson Unit 5	$ 2,111	$ 2,126
Prairie State Units 1 & 2	2,537	2,474
Trimble County Units 1 & 2	7,205	7,055
	$ 11,853	**$ 11,655**

IMPA's percentage share of the total asset retirement obligations approximates the Agency's percentage ownership share of each of the respective jointly owned production facilities, see Note 11, Jointly-Owned Plant.

The Agency had restricted assets for the payment of IMPA's share of the asset retirement obligations totaling approximately $12.0 and $10.8 million at June 30, 2019 and December 31, 2018, respectively.

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 had no arbitrage liability at June 30, 2019 and December 31, 2018. 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 29% and 28% of the Agency's sales to municipalities were provided to two communities for the period ended June 30, 2019 and December 31, 2018, respectively. Accounts receivable balances for the two communities account for 29% of the total municipality accounts receivable balances as of June 30, 2019 and December 31, 2018. IMPA has long-term energy purchase contracts with two suppliers that account for approximately 33% and 32% of IMPA's total energy for the period ended June 30, 2019 and the year ended December 31, 2018, 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 June 30, 2019 were as follows (in thousands):

	Share	Utility Plant In Service	Accumulated Depreciation
Production			
Gibson Unit 5	24.95%	$ 195,457	$ 96,867
Prairie State Units 1 & 2	12.64%	756,326	137,899
Trimble County Units 1 & 2	12.88%	319,323	113,723
Transmission and local facilities	5.01%	160,638	56,392

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 June 30, 2019 was approximately $69.6 million for 2019 and $2.0 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 $368 million for the years 2020 through 2024. 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 Affordable Clean Energy Rule

The EPA has issued a final rule repealing the Clean Power Plan (CPP) and publishing the Affordable Clean Energy Rule (ACE Rule). The ACE Rule replaces the CPP and seeks to reduce emissions through efficiency increases for coal-fired units using an inside-the-fenceline framework and specific standards, subject to EPA approval, to be set by each state. State governments will have three (3) years to provide their plans to the EPA, which will have one (1) year to approve such plans. IMPA's combustion turbines and renewable portfolio are exempt from the terms of the ACE Rule, and its coal-fired units will not be affected until the relevant state plans are approved by the EPA; however, IMPA does not anticipate a material impact on its facilities arising from the ACE Rule's implementation.

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.