Intermountain Power Agency

Financial Statements as of and for the Years Ended June 30, 2018 and 2017, Supplemental Schedule for the Years Ended June 30, 2018 and 2017, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Intermountain Power Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of Intermountain Power Agency (IPA), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues and expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of IPA as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 – 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Supplemental Schedule of Changes in Funds Established by the IPA Revenue Bond Resolution for the Years Ended June 30, 2017 and 2018 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Deloitte & Touche LLP

September 28, 2018

Intermountain Power Agency

Management's Discussion and Analysis

The Intermountain Power Agency (IPA) is a political subdivision of the State of Utah formed by 23 Utah municipalities pursuant to the provisions of the Utah Interlocal Co-operation Act. IPA owns, finances, operates, and maintains a two-unit, coal-fired, steam-electric generating plant and switchyard located in Millard County, Utah and transmission systems through portions of Utah, Nevada and California (the "Project"). IPA has irrevocably sold the entire capacity of the Project pursuant to Power Sales Contracts, as amended (the "Contracts"), to 35 utilities (the "Purchasers"). The Purchasers are unconditionally obligated to pay all costs of operation, maintenance and debt service, whether or not the Project or any part thereof is operating or operable, or its output is suspended, interrupted, interfered with, reduced, or terminated.

IPA's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and consist of Management's Discussion and Analysis, statements of net position, statements of revenues and expenses, statements of cash flows, and the related notes to the financial statements. The statements of net position report IPA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of the end of the fiscal year. Investments are stated at fair value. No net position is reported in the statements of net position because IPA is completely debt financed and the Contracts contain no provision for profit. The Contracts govern how and when Project costs become billable to the Purchasers. Net costs billed to participants not yet expensed in accordance with U.S. GAAP or expenses recognized but not currently billable under the Contracts are recorded as net costs billed to participants not yet expensed (a liability) or deferred as net costs to be recovered from future billings to participants (an asset), respectively, in IPA's statements of net position. In future periods, the liability will be settled or the asset will be recovered as the associated expenses are recognized in accordance with U.S. GAAP or when they become billable Project costs in future participant billings, respectively. At June 30, 2018 and 2017, total accumulated Project costs billed to participants exceeded accumulated U.S. GAAP expenses, resulting in a liability, net costs billed to participants not yet expensed. Over the life of the Project, aggregate U.S. GAAP expenses will equal aggregate billed Project costs. The statements of revenues and expenses report the results of operations and the statements of cash flows report the resulting cash flows for the fiscal year. Net costs billed to participants not yet expensed, as reported in the statements of revenues and expenses, reflects the extent to which billable Project costs are greater than U.S. GAAP expenses during the fiscal year. The following table summarizes the financial condition and operations of IPA for the years ended June 30, 2018, 2017 and 2016 (in thousands):

Assets	2018	2017	2016
Utility plant, net	$ 880,852	$ 940,069	$ 1,009,290
Cash, cash equivalents, and investments	255,592	378,133	294,672
Other	136,018	146,893	104,021
Total assets	1,272,462	1,465,095	1,407,983
Deferred outflows of resources	54,523	85,739	111,667
Total assets and deferred outflows of resources	$ 1,326,985	$ 1,550,834	$ 1,519,650

Liabilities			
Long-term debt	$ 813,055	$ 1,036,728	$ 1,150,296
Commercial paper notes	95,500	100,000	100,000
Net costs billed to participants not yet expensed	166,054	115,974	2,592
Other	251,607	297,763	266,441
Total liabilities	1,326,216	1,550,465	1,519,329
Deferred inflows of resources	769	369	321
Total liabilities and deferred inflows of resources	$ 1,326,985	$ 1,550,834	$ 1,519,650

Revenues and Expenses			
Operating revenues, net	$ 500,454	$ 538,147	$ 597,400
Fuel	(180,364)	(163,029)	(200,570)
Other operating expenses	(225,042)	(195,547)	(298,776)
Operating income	95,048	179,571	98,054
Net interest charges	(48,770)	(67,198)	(72,417)
Nonoperating income	3,802	1,009	1,203
Net costs billed to participants not yet expensed	$ 50,080	$ 113,382	$ 26,840

Financial Highlights:

Assets

The net increase in gross utility plant of $46 million and $10 million in 2018 and 2017, respectively, resulted from additions of $15 million and $17 million in 2018 and 2017, respectively, offset by retirements of $2 million and $7 million in 2018 and 2017, respectively. The 2018 additions were principally for the replacement of circuit breakers at both the Intermountain and Adelanto Converter Stations, the completion of the multi-year plant fire control system replacement project, and the installation of groundwater remediation wells. In addition, the asset retirement cost included in utility plant was increased by $32 million due to additional asset retirement obligations (ARO) for liabilities incurred and revisions to the timing and amount of the original cash flows used for measuring the fair value of certain other previously recorded ARO (see Note 9). The 2017 additions were principally for expenditures on projects related to the installation of variable frequency drives on the primary air fans, the upgrade of fan drive controls, the refurbishment of the concrete cooling towers, and the continuation of the replacement of the plant fire control system. The net increase in accumulated depreciation of $105 million and $79 million in 2018 and 2017, respectively, resulted from depreciation expense of $107 million and $86 million, respectively, offset by retirements of $2 million and $7 million, respectively.

The 2018 decrease in cash and cash equivalents and investments, combined current and restricted, of $122 million is primarily due to a decrease in the budgeted billings to purchasers that were required to meet the bond principal payments due in July 2018. In addition, $18 million of bond principal was retired during fiscal year 2018 using cash held for such purposes (see Note 10). Conversely, the 2017 increase in cash and cash equivalents and investments, combined current and restricted, of $83 million is primarily due to an increase in the budgeted billings to purchasers that were made throughout the year in order to meet the bond principal payments due in July 2017.

The $11 million decrease in other assets was caused primarily by a $26 million reduction of coal inventory from a planned use of existing coal reserves instead of new coal purchases to meet the scheduled plant operation for the year, offset by a $15 million increase in other accounts receivable representing insurance claim payments relating to the replacement of a transformer at the Adelanto Converter Station that was damaged in 2013. The final claims were settled prior to the current fiscal year end, but not received until fiscal year 2019. The increase of $43 million in 2017 in other assets was caused primarily by an increase of $45 million in fuel inventory from a reduction in scheduled energy from budget during fiscal year 2017 compared to the prior fiscal year, offset by a $1 decrease in receivable from participants caused by a reduction in variable power taken in June 2017 compared to June 2016, and a $1 million decrease in other assets.

Deferred Outflows of Resources

Deferred outflows of resources primarily consist of unamortized refunding charge on defeasance of debt. The decrease of $31 million and $26 million in 2018 and 2017, respectively, was principally due to normal amortization.

Liabilities

During 2018, the proceeds of $105 million of refunding bonds, along with certain other funds, were used to retire approximately $115 million of previously issued bonds payable. An additional $18 million of previously issued bonds were cash defeased using funds held for such purposes (see Note 10). Additionally, $195 million of scheduled principal maturities on bonds and subordinated notes were paid. Commercial paper notes decreased by $5 million through scheduled sinking fund payments. Other liabilities decreased by $47 million in 2018. The decrease was primarily attributable to a $30 million reduction in borrowings from a working capital agreement (see Note 13), a $33 million decrease in personal service contract obligations related to pension and other postretirement benefit obligations, a $8 million decrease in accounts payable, a $7 million decrease in interest payable due to bond principal reductions, and a $5 million decrease in credit to participants, offset by a $36 million increase in ARO resulting from current year accretion, liabilities incurred, and revisions to the timing and amount of the original cash flows used for measuring the fair value of certain other previously recorded ARO (see Note 9).

During 2017, $109 million of scheduled principal maturities on bonds and subordinated notes were paid. Other liabilities increased by $31 million in 2017. The increase was primarily attributable to $75 million borrowed in accordance with a working capital credit agreement (see Note 13), a $7 million increase in the credit to participants, a $4 million increase in ARO due to current year accretion, and a $2 million increase in accounts payable, offset by a $56 million decrease in personal service contract obligations related to pension and other postretirement benefit obligations and a $1 million reduction in interest payable.

At June 30, 2018 and 2017, total accumulated Project costs billed to participants exceeded accumulated U.S. GAAP expenses. Accordingly, the excess of such billings is reported as a liability, net costs billed to participants not yet expensed at June 30, 2018 and 2017. The resulting changes in net costs billed to participants not yet expensed are outlined in Note 4.

Standard & Poor’s rates IPA's subordinate lien bonds A+ and the commercial paper notes A1. Fitch rates the subordinate lien bonds AA and the commercial paper notes F1. Moody's rates IPA's subordinate lien bonds A1. Moody’s does not rate the commercial paper notes. The subordinated notes are not rated because they are not publicly traded. Fitch upgraded its rating of subordinated lien bonds from AA- in the prior year. All other ratings are unchanged from the prior year.

Revenues and Expenses

Net operating revenues decreased $38 million and $59 million in 2018 and 2017, respectively. In 2018, the decrease is primarily due to less revenue that was billed to the Purchasers for scheduled bond principal and interest payments. In 2017, the decrease corresponded with a reduction in plant net capacity factor, which decreased from 64% to 52%. In addition, changes in revenues from corresponding changes to net costs billed to participants not yet expensed in both 2018 and 2017 are due principally to the following: a decrease of $26 million and $14 million in 2018 and 2017, respectively, for bond, subordinated note and commercial paper notes principal requirements; a $37 million decrease in 2018 and $104 million increase in 2017, respectively, in billings for previously deferred expenses in conformity with U.S. GAAP, and an decrease of $1 million in 2018 and a decrease of $3 million in 2017 for capital improvements and required fund deposits.

Fuel expense increased by $17 million and decreased by $38 million in 2018 and 2017, respectively. The increase in 2018 was primarily due to an increase in variable fuel usage during the year. Throughout fiscal years 2016 and 2017, IPA’s fuel inventory had grown as long-term contract coal tonnage exceeded what was needed for the budgeted net capacity factor. As some of these long-term contracts expired, coal from the inventory stockpile was burned instead. The decrease in 2017 was primarily due to the 19% reduction in plant net capacity factor for the year. Other operating expenses increased by $29 million in 2018 due primarily to a $20 million increase in depreciation expense as the useful life of the generating station assets was reduced by two years to 2025 and a reduction in the regulatory liability for reclamation that had been recorded within accumulated depreciation, and $33 million due to changing discount rates and other assumptions associated with the actuarial estimate of the personal service contract obligations and changes in the fair value of the underlying assets. These were offset by a $6 million decrease in maintenance expense and the $15 million resulting from the Adelanto Converter Station insurance claims. As the costs for the replacement transformer were expensed and billed in prior years, current year expenses were reduced to properly credit the Purchasers. The remaining change in other operating expense is due to other less material items. Other operating expense decreased by $103 million in 2017 due primarily to changing discount rates and other assumptions associated with the actuarial estimate of the personal service contract obligations and changes in the fair value of the underlying assets. The related net liability decreased by $56 million in 2017 compared to an increase of $50 million which resulted in a $106 million decrease in operating expenses compared to 2016.

Net interest charges decreased by $18 million in 2018 due to a $19 million reduction in bond and subordinated note interest due to the reduction of bond principal through scheduled principal payments and the retirement of debt related to the 2018 Series A refinancing, offset by a $1 million increase in financing expenses caused by issuance costs associated with the 2018 Series A refinancing. Net interest charges decreased by $5 million in 2017 due to a $21 million reduction in bond and subordinated note interest due to the reduction of bond principal through scheduled principal payments of bonds and subordinated notes payable. Also contributing to the decrease was a $2 million reduction in financing expenses resulting from less amortization of bond discount and refunding charge on defeasance of debt, and a $1 million increase in earnings on investments. Non-operating income increased by $3 million in 2018 primarily due to increased flash sales. The change in non-operating income in 2017 was not material.

Electric Industry Legislation and Regulation
California has enacted legislation prohibiting its municipally-owned electric utilities from entering into new long-term financial commitments for base load generation that do not meet certain greenhouse gases emissions performance standards. During August 2018, the California legislature passed legislation stating California policy that eligible renewable energy resources and zero-carbon resources supply 100% of retail sales of electricity to California end-use customers by December 31, 2045. These and other environmental regulation issues are discussed in Note 12 to the financial statements.

Project Repowering
Over the past several years, IPA and the Purchasers have engaged in strategic activities so that the Project may continue operation in compliance with current electric industry regulation applicable to its Purchasers, beyond the expiration of the current Power Sales Contracts. IPA and the Purchasers executed the Second Amendatory Power Sales Contracts, which provides that the Project be repowered to natural gas and that IPA offer the Purchasers renewal in their generation and associated transmission entitlements through Renewal Power Sales Contracts (the "Renewal Contracts"), the term of which commences upon the termination of the current Power Sales Contracts on June 15, 2027. The Renewal Contracts became effective on January 17, 2017 when 100% of the entitlements were accepted. The 50-year term of the Renewal Contracts is to commence upon the termination of the Contracts.

On March 13, 2018, IPA and the Purchasers acknowledged that planned changes to the repowering constituted an Alternative Repowering under the Contracts. The Alternative Repowering is described to include the construction and installation of two combined-cycle natural gas fired power blocks, each block consisting of one gas turbine, a heat recovery steam generator train and a single steam turbine, with an approximate combined net generation capability of 840 MW. The Alternative Repowering requires approval of the Purchasers and the IPA Board of Directors. These approvals were received on September 24, 2018.

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INTERMOUNTAIN POWER AGENCY

STATEMENTS OF NET POSITION, JUNE 30, 2018 AND 2017 (IN THOUSANDS)

ASSETS	2018	2017
UTILITY PLANT:		
Electric plant in service	$ 3,110,193	$ 3,064,449
Less accumulated depreciation	(2,229,341)	(2,124,380)
Net	880,852	940,069
RESTRICTED ASSETS:		
Cash and cash equivalents	17	5,355
Investments	91,868	160,627
Interest receivable	11	40
Total	91,896	166,022
CURRENT ASSETS:		
Cash and cash equivalents	2,505	2,445
Investments	161,202	209,706
Interest receivable	606	597
Receivable from participants	1,404	2,503
Fuel inventories	94,718	121,206
Materials and supplies	21,677	20,055
Other	16,175	1,868
Total	298,287	358,380
OTHER ASSETS	1,427	624
Total Assets	1,272,462	1,465,095
DEFERRED OUTFLOWS OF RESOURCES:		
Unamortized refunding charge	53,356	84,531
Other	1,167	1,208
Total Deferred Outflows of Resources	54,523	85,739
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,326,985	$ 1,550,834

See notes to financial statements.

(Continued)

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF NET POSITION, JUNE 30, 2018 AND 2017 (IN THOUSANDS)

LIABILITIES	2018	2017
LONG-TERM PORTION OF BONDS PAYABLE - Net	$ 140,114	$ 247,364
LONG-TERM PORTION OF SUBORDINATED NOTES PAYABLE - Net	470,522	594,017
LONG-TERM LINE OF CREDIT	45,000	-
ADVANCES FROM SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY	10,930	10,930
NON-CURRENT LIABILITIES:		
Personnel services contract obligations	26,717	59,435
Asset retirement obligations	106,679	70,305
Net costs billed to participants not yet expensed	166,054	115,974
Total	299,450	245,714
CURRENT LIABILITIES:		
Commercial paper notes	95,500	100,000
Line of credit	-	75,000
Current maturities of bonds payable	74,520	140,710
Current maturities of subordinated notes payable	127,899	54,637
Interest payable	4,599	11,804
Accrued credit to participants	28,370	33,254
Accounts payable and accrued liabilities	29,312	37,035
Total	360,200	452,440
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 1, 7, 10, and 12)		
Total Liabilities	1,326,216	1,550,465
DEFERRED INFLOWS OF RESOURCES	769	369
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$ 1,326,985	$ 1,550,834

See notes to financial statements.

(Concluded)

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (IN THOUSANDS)

	2018	2017
OPERATING REVENUES:		
Power sales to participants	$ 528,966	$ 571,426
Less credit to participants	(28,512)	(33,279)
Net revenues	500,454	538,147
OPERATING EXPENSES:		
Fuel	180,364	163,029
Operation	41,050	25,458
Maintenance	58,012	64,520
Depreciation	107,184	86,798
Taxes and payment in lieu of taxes	18,796	18,771
Total expenses	405,406	358,576
OPERATING INCOME	95,048	179,571
NON-OPERATING INCOME	3,802	1,009
INTEREST CHARGES:		
Interest on bonds, subordinated notes, and other debt	23,375	43,908
Financing expenses (principally amortization of bond discount and refunding charge on defeasance of debt)	24,652	23,095
Charge on retirement of debt	264	-
Accretion of asset retirement obligations	3,969	3,756
Earnings on investments	(3,490)	(3,561)
Net interest charges	48,770	67,198
NET COSTS BILLED TO PARTICIPANTS NOT YET EXPENSED	$ 50,080	$ 113,382

See notes to financial statements.

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (IN THOUSANDS)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from power billings to participants	$ 496,669	$ 546,479
Other cash receipts	3,802	1,009
Cash paid to suppliers	(330,298)	(370,021)
Net cash provided by operating activities	170,173	177,467
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Advances from line of credit	10,000	75,000
Repayments on line of credit	(40,000)	-
Repayments to Southern California Public Power Authority	-	(620)
Net cash provided by (used in) noncapital financing activities	(30,000)	74,380
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	115,975	-
Defeasance and retirement of bonds	(135,756)	-
Bond issuance costs	(1,054)	-
Bond and subordinated note principal paid	(195,347)	(108,973)
Commercial paper principal paid	(4,500)	-
Interest paid on bonds, subordinated notes and commercial paper	(29,094)	(44,903)
Additions to electric plant in service	(16,448)	(17,949)
Net cash used in capital and related financing activities	(266,224)	(171,825)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(8,614,801)	(2,879,250)
Proceeds from sales/maturities of investments	8,732,254	2,745,133
Interest earnings received on investments	3,320	2,527
Net cash provided by (used in) investing activities	120,773	(131,590)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,278)	(51,568)
CASH AND CASH EQUIVALENTS:		
Beginning balance	7,800	59,368
Ending balance	$ 2,522	$ 7,800

See notes to financial statements.

(Continued)

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (IN THOUSANDS)

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 95,048	$ 179,571
Other non-operating income	3,802	1,009
Depreciation	107,184	86,798
Financing expenses, net of amortization of bond discount and refunding charge on defeasance of debt	(2,719)	(1,436)
Changes in operating assets and liabilities:		
Receivable from participants	1,099	1,033
Fuel inventories	26,488	(45,163)
Materials and supplies	(1,622)	250
Other current assets	(14,307)	867
Personnel services contract obligations	(32,718)	(55,507)
Accounts payable and accrued liabilities	(6,837)	2,763
Accrued credit to participants	(4,884)	7,299
Other assets	(803)	262
Deferred outflows of resources - other	41	(327)
Deferred inflows of resources - other	401	48
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 170,173	$ 177,467

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Accounts payable and accrued liabilities included $1,274 and $2,159 at June 30, 2018 and 2017, respectively, of accruals for additions to electric plant in service.

See notes to financial statements.

(Concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose – Intermountain Power Agency (IPA), a separate legal entity and political subdivision of the State of Utah, was formed in 1977 by an Organization Agreement pursuant to the provisions of the Utah Interlocal Co-operation Act. IPA's membership consists of 23 municipalities which are suppliers of electric energy in the State of Utah. IPA's purpose is to own, acquire, construct, finance, operate, maintain, repair, administer, manage and control a facility to generate electricity located in Millard County, Utah and transmission systems through portions of Utah, Nevada and California (the "Project"). The operation and maintenance of the Project is managed for IPA by the Department of Water and Power of the City of Los Angeles (LADWP) in its capacity as Operating Agent pursuant to an operating agreement. LADWP has also contracted to purchase a portion of the electric energy generated from the Project (see Note 10). Personnel at the generating plant are employed by Intermountain Power Service Corporation (IPSC), a separate legal non-governmental entity. IPSC is not a component unit of IPA. However, under a Personnel Services Contract ("PSC") between IPA and IPSC, IPA is required to pay all costs incurred by IPSC, including employee pensions and other postretirement benefits offered by IPSC to its employees. Accruals for IPA's obligation under the PSC for IPSC's employee pensions and other postretirement benefits are reported as non-current liabilities in personnel service contract obligations in the accompanying statements of net position.

Use of Estimates in Preparing Financial Statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting – IPA maintains its records substantially in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts, as required by its Contracts (see Note 10), and in conformity with U.S. GAAP. IPA applies all of the pronouncements of the Governmental Accounting Standards Board (GASB).

Utility Plant – Electric plant in service is stated at cost, which represents the actual direct cost of labor, materials, and indirect costs, including interest and other overhead expenses, net of related income during the construction period. Depreciation of electric plant in service is computed using the straight-line method over the estimated useful lives of the assets which range from five to 50 years. Depreciation has historically included, in addition to depreciation of assets recorded related to asset retirement obligations (see Note 9), estimates for other future costs related to the reclamation of the Project recorded pursuant to GASB authoritative guidance related to regulated operations, accumulating to $79,500,000 and $82,000,000, which amount is included in accumulated depreciation at June 30, 2018 and 2017, respectively.

Payments-in-Aid of Construction – IPA and the Southern California Public Power Authority (SCPPA), which is comprised of certain California Purchasers (see Note 8), have entered into the Southern Transmission System Agreement, as amended, ("STS Agreement") whereby SCPPA has made payments-in-aid of construction accumulating to approximately $737,900,000 as of June 30, 2018 and 2017, to IPA for costs associated with the acquisition, construction and improvements of the Southern Transmission System of the Project ("STS"). Such payments-in-aid are recorded as reductions to utility plant. IPA has also entered into inter-connection agreements with other entities that have made additional payments-in-aid of construction accumulating to approximately $2,037,000 as of June 30, 2018 and 2017.

Cash and Cash Equivalents – IPA considers short-term investments with an original maturity of three months or less to be cash equivalents. As more fully discussed in Note 5, the IPA Bond Resolution required the establishment of certain funds and prescribes the use of monies in these funds. Accordingly, the assets held in certain of these funds are classified as restricted in the accompanying statements of net position. In accordance with GASB requirements, such restricted amounts are considered cash equivalents.

Investments – The IPA Bond Resolution, as amended, stipulates IPA may invest in any securities, obligations or investments that are permitted by Utah Law. Investments are held by IPA as beneficial owner in book-entry form. Management believes there were no investments held by IPA during the years ended June 30, 2018 and 2017 that were in violation of the requirements of the IPA Bond Resolution.

Investments are stated at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets in the statements of net position and as earnings on investments in the statements of revenues and expenses.

Fuel Inventories, Materials and Supplies – Fuel inventories for the Project, principally coal, which have been purchased for the operation of the utility plant are stated at cost (computed on a last in, first out basis). The replacement cost of Project fuel inventory is approximately $23,604,000 and $21,798,000 greater than the stated last-in, first-out value at June 30, 2018 and 2017, respectively. Materials and supplies are stated at average cost.

Unamortized Bond Discount and Refunding Charge on Defeasance of Debt – Unamortized discount related to the issuance of bonds and the unamortized refunding charge related to the refunding of certain bonds are deferred and amortized using the interest method over the terms of the respective bond issues. Bonds payable have been reported net of the unamortized bond discount in the accompanying statements of net position. Unamortized refunding charge is reported as a deferred outflow of resources in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Net Costs Billed to Participants Not Yet Expensed – Billings to participants are designed to recover power costs as set forth by the Power Sales Contracts (see Note 10), which principally include current operating expenses, scheduled debt principal and interest, and deposits into certain funds. Pursuant to GASB authoritative guidance related to regulated operations, net costs billed to participants not yet expensed in accordance with U.S. GAAP or expenses recognized but not currently billable under the Contracts are recorded as net costs billed to participants not yet expensed (a liability) or deferred as net costs to be recovered from future billings to participants (an asset), respectively, in IPA's statements of net position. In future periods, the liability will be settled or the asset will be recovered as the associated expenses are recognized in accordance with U.S. GAAP or when they become billable Project costs in future participant billings, respectively. At June 30, 2018 and 2017, total accumulated Project costs billed to participants to date exceeded accumulated U.S. GAAP expenses, resulting in a liability, net costs billed to participants not yet expensed. Over the life of the Power Sales Contracts, aggregate U.S. GAAP expenses will equal aggregate billable power costs.

California has enacted legislation prohibiting its municipally-owned electric utilities from entering into new long-term financial commitments for base-load generation that do not meet certain greenhouse gases emissions performance standards. During August 2018, the California Legislature passed legislation stating California policy that eligible renewable energy resources and zero-carbon resources supply 100% of retail sales of electricity to California end-use customers by December 31, 2045. The Environmental Protection Agency (EPA) has also proposed regulation of certain greenhouse gases emissions. Future federal and state legislative and regulatory action may also result from the increasing national and international attention to climate change. Federal legislation has been introduced that would, among other things, create a greenhouse gases cap and trade program and/or required greenhouse gases emissions reductions from fossil fuel-fired electric generation facilities, although none have yet been enacted. Legislative and regulatory actions, both nationally and in California, have had and may yet have significant (yet hard to quantify) effects on IPA and the Purchasers (see Note 10). If these effects, which are not currently determinable, were to cause the Purchasers to be unable to meet their future power sales contract payment obligations, IPA may then be required to apply GASB authoritative guidance, which requires that assets and liabilities recognized pursuant to IPA's regulated operations be removed from the statement of net position when the related application criteria is no longer met unless those costs continue to be recoverable through a separate regulatory billing. As of June 30, 2018, costs deferred are probable of recovery through future billings.

Long-Lived Assets – IPA evaluates the carrying value of long-lived assets based upon current and anticipated undiscounted cash flows, and recognizes an impairment when such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value.

Pension and Other Postretirement Obligations – IPA sponsors a defined benefit pension plan and a postretirement medical plan that are accounted for pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and GASB Statement No. 75*, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, respectively. No disclosures related to these plans are presented herein because amounts are not significant to the financial statements.

Asset Retirement Obligations – IPA records asset retirement obligations where there is a legal obligation associated with the retirement of its tangible long-lived assets and where the amounts are estimable. The carrying amount of the liability for asset retirement obligations is adjusted upon revisions to the timing or the amount of the future cash flows estimated to settle such obligations. Associated increases or decreases in such obligations are correspondingly recorded as increases or decreases to electric plant in service (see Note 9).

Recently Issued Accounting Pronouncements – In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement requires that recognition of a liability occur when external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates an entity to perform asset retirement activities. An asset retirement obligation is measured based on the best estimate of the current value of outlays expected to be incurred, including probability weighting of potential outcomes. This statement requires the current value of an entity's AROs to be adjusted for the effects of general inflation or deflation at least annually and it requires entities to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. An entity should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimate outlays. The deferred outflows of resources should be reduced and recognized as outflows or resources in a systematic and rational manner over the estimated useful life of the tangible capital asset. This statement is effective for financial statements for years beginning after June 15, 2018. IPA is currently evaluating the effects the adoption of this statement will have on the financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases.* This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about an entity's leasing activities. This statement is effective for financial statements for years beginning after December 15, 2019. IPA is currently evaluating the effects the adoption of this statement will have on the financial statements.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit, assets pledged as collateral for debt, and terms specific in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement is effective for financial statements for years beginning after June 15, 2018. IPA is currently evaluating the effects the adoption of this statement will have on the financial statements.

2. UTILITY PLANT

Utility plant activity for the years ended June 30, 2018 and 2017, is as follows (in thousands):

	July 1, 2017	Increases	Decreases	June 30, 2018
Utility plant not being depreciated -				
Construction work-in-progress	$ 2,959	$ 3,409	$ -	$ 6,368
Utility plant being depreciated/amortized:				
Production	2,942,828	38,020	(2,193)	2,978,655
Transmission	809,258	5,210	86	814,554
Payments-in-aid of construction - transmission	(739,937)	-	-	(739,937)
General	49,341	1,329	(117)	50,553
Total	3,061,490	44,559	(2,224)	3,103,825
Accumulated depreciation	(2,587,847)	(118,371)	2,224	(2,703,994)
Accumulated amortization of payments-in-aid of construction	463,467	11,187	-	474,654
Total accumulated depreciation	(2,124,380)	(107,184)	2,224	(2,229,340)
Utility Plant, Net	$ 940,069	$ (59,216)	$ -	$ 880,853

	July 1, 2016	Increases	Decreases	June 30, 2017
Utility plant not being depreciated -				
Construction work-in-progress	$ 2,956	$ 3	$ -	$ 2,959
Utility plant being depreciated/amortized:				
Production	2,929,484	16,787	(3,443)	2,942,828
Transmission	814,032	(949)	(3,825)	809,258
Payments-in-aid of construction - transmission	(739,937)	-	-	(739,937)
General	47,899	1,736	(294)	49,341
Total	3,051,478	17,574	(7,562)	3,061,490
Accumulated depreciation	(2,497,414)	(97,995)	7,562	(2,587,847)
Accumulated amortization of payments-in-aid of construction	452,270	11,197	-	463,467
Total accumulated depreciation	(2,045,144)	(86,798)	7,562	(2,124,380)
Utility Plant, Net	$ 1,009,290	$ (69,221)	$ -	$ 940,069

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments consist of the following at June 30, 2018 and 2017 (in thousands):

	2018		2017	
	Fair Value	Weighted Average Remaining Maturity	Fair Value	Weighted Average Remaining Maturity
Cash and Cash Equivalents:				
Restricted:				
Cash	$ 17	1 day or less	$ 5,355	1 day or less
Total Restricted	17		5,355	
Current:				
Cash	2,505	1 day or less	2,445	1 day or less
Total Current	2,505		2,445	
Total Cash and Cash Equivalents	$ 2,522		$ 7,800	
Investments:				
Restricted:				
U.S. Agencies	$ 9,384	1.51 years	$ 4,460	3.46 years
Commercial paper	78,167	2 days or less	149,406	3 days or less
Corporate bonds	4,317	1.27 years	6,761	.24 years
Total Restricted	91,868		160,627	
Current:				
U.S. Treasuries	1,527	0.67 years	1,546	0.68 years
U.S. Agencies	72,668	1.31 years	70,115	.27 years
Corporate bonds	87,007	1.27 years	138,045	1.25 years
Total Current	161,202		209,706	
Total Investments	$ 253,070		$ 370,333	

The fair value of securities purchased under agreements to resell is determined at the settlement amount received at the maturity of the agreements. Investments consist entirely of U.S. Government Agencies, U.S. Treasuries, commercial paper and corporate bonds whose fair value is derived from inputs using observable market data to estimate current interest rates.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, IPA manages its exposure to interest rate risk by requiring that the remaining term to maturity of investments not exceed the date the funds will be required to meet cash obligations.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy, IPA manages its exposure to credit risk by limiting its investments to securities authorized for investment of public funds under the Utah Money Management Act, which requires a rating of “A” or higher or the equivalent of “A” or higher by two nationally recognized statistical rating organizations.

Custodial Credit Risk – Cash Deposits: Custodial credit risk is the risk that, in the event of a failure of the counterparty holding the funds, IPA's deposits may not be returned. IPA does not require deposits to be fully insured and collateralized. As of June 30, 2018, approximately $2,522,000 of IPA's bank balances are uninsured and uncollateralized.

Custodial Credit Risk – Securities Purchased under Agreements to Resell: IPA policy only permits investments in repurchase agreements with certified dealers.

Fair Value Measurements – IPA measures and records its investments using fair value measurement guidelines established by U.S. GAAP. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1 – Quoted prices for identical investments in active markets;
Level 2 – Observable inputs other than quoted market prices; and,
Level 3 – Valuations derived from unobservable inputs.

At June 30, 2018 and 2017, IPA's fair value measurements and their levels within the fair value hierarchy were as follows (in thousands):

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments by fair value level:				
U.S. Treasuries	$ -	$ 1,527	$ -	$ 1,527
U.S. Agencies	-	82,052	-	82,052
Commercial paper	-	78,167	-	78,167
Corporate bonds	-	91,324	-	91,324
Total investments by fair value level	$ -	$ 253,070	$ -	$ 253,070

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments by fair value level:				
U.S. Treasuries	$ -	$ 1,546	$ -	$ 1,546
U.S. Agencies	-	74,575	-	74,575
Commercial paper	-	149,406	-	149,406
Corporate bonds	-	144,806	-	144,806
Total investments by fair value level	$ -	$ 370,333	$ -	$ 370,333

4. NET COSTS BILLED TO PARTICIPANTS NOT YET EXPENSED

Net costs billed to participants not yet expensed for the years ended June 30, 2018 and 2017, and the accumulated totals as of June 30, 2018 and 2017, consisted of the following (in thousands):

	For the Years Ended June 30,		Accumulated Totals as of June 30,	
	2018	2017	2018	2017
Items in accordance with U.S. GAAP not billable to participants under the power sales contracts:				
Interest expense in excess of amounts billable	$ -	$ -	$ (452,454)	$ (452,454)
Depreciation expense	(107,184)	(86,798)	(2,440,230)	(2,333,046)
Amortization of bond discount and refunding on defeasance of bonds	(21,933)	(21,659)	(1,315,504)	(1,293,571)
Accretion of interest on zero coupon bonds	-	-	(349,408)	(349,408)
Charge on retired debt	(264)	-	(157,653)	(157,389)
Cumulative effect of a change in accounting principle	-	-	(18,241)	(18,241)
Accretion of asset retirement obligations	(3,969)	(3,756)	(30,934)	(26,965)
Unrealized gains (losses) on investments	(606)	5	(607)	(1)
Change in fair value of interest rate exchange agreements	-	-	(27,652)	(27,652)
Gain on sale of ownership interest in coal mines	-	-	4,877	4,877
Amortization of deferred fuel costs	-	-	(69,379)	(69,379)
Accrued interest earnings	(208)	1,102	(8,387)	(8,179)
Liabilities	32,718	55,507	(38,863)	(71,581)
Other	1,777	(7,114)	(24,548)	(26,325)
Amounts billed to participants under the bond resolution and the power sales contracts:				
Bond and subordinated note principal	136,670	162,205	4,269,621	4,132,951
Deferred fuel costs	-	-	32,228	32,228
Capital improvements	12,842	14,493	498,166	485,324
Reduction of required fund deposits	237	(603)	3,546	3,309
Cash received from sale of assets	-	-	(18,904)	(18,904)
Participant funds expended for debt reduction, refinancing and/or other financing costs (Note 10)	-	-	310,380	310,380
Net costs billed to participants not yet expensed	$ 50,080	$ 113,382	$ 166,054	$ 115,974

5. BONDS PAYABLE

To finance the construction of the Project, IPA has sold Revenue and Revenue Refunding Bonds (the “Senior Bonds”) pursuant to IPA's Power Supply Revenue Bond Resolution adopted September 28, 1978, as amended and supplemented (the “Bond Resolution”) and IPA has sold Subordinated Revenue Refunding Bonds (the “Subordinated Bonds”) pursuant to IPA’s Subordinated Power Supply Revenue Resolution adopted March 4, 2004, as supplemented (the “Subordinated Bond Resolution”). There are no Senior Bonds outstanding as of June 30, 2018 and 2017. As of June 30, 2018 and 2017, for Subordinated Bonds (collectively, the “Bonds”) the principal amount consisted of the following (in thousands):

Series	Bonds Dated	Final Maturity on July 1	2018	2017
Subordinated Bonds				
2007 A	4/3/2007	2019	$ -	$ 107,395
2013 A	4/2/2013	2023	53,245	199,995
2014 A	6/23/2014	2019	45,385	48,910
2014 B	6/23/2014	2017	-	15,920
2018 A	4/4/2018	2023	105,230	-
Total Bonds payable			203,860	372,220
Unamortized bond premium			10,774	15,854
Current maturities of Bonds payable			(74,520)	(140,710)
LONG-TERM PORTION OF BONDS PAYABLE - Net			$ 140,114	$ 247,364

Interest rates on the Bonds payable outstanding range from 2.75% to 5.00% at June 30, 2018 and 1.33% to 5.00% at June 30, 2017.

The changes in the par value of Bonds payable for the years ended June 30, 2018 and 2017, are as follows (in thousands):

	2018	2017
Beginning balance	$ 372,220	$ 453,620
Additions - Refunding bonds issued	105,230	-
Deductions:		
Principal maturities	(140,710)	(81,400)
Bonds defeased/retired	(132,880)	-
Ending balance	$ 203,860	$ 372,220

The principal amounts of future maturities, sinking fund requirements and interest to be paid for the Bonds outstanding as of June 30, 2018, are as follows (in thousands):

	Principal	Interest
Years ending June 30:		
2019	$ 74,520	$ 6,872
2020	24,110	5,833
2021	22,400	4,686
2022	44,030	3,041
2023	34,185	1,085
2024	4,615	115
Total	$ 203,860	$ 21,632

The Subordinated Bond Resolution stipulates that the Subordinated Bonds are direct and special obligations of IPA payable from and secured by amounts on deposit in the Subordinated Indebtedness Debt Service Account. The Bond Resolution and the Subordinated Bond Resolution require that after providing for monthly operating expenses and the required monthly deposits of revenues have been made to the Debt Service Fund that revenues in amounts sufficient to provide for the debt service requirements of Subordinated Bonds be deposited each month into the Subordinated Indebtedness Debt Service Account. The security for the Subordinated Bonds has the same priority as the security for the commercial paper notes (see Note 7) and is senior to the security for the subordinated notes payable.

Funds Established by the Bond Resolution – The Bond Resolution requires that certain funds be established to account for IPA's receipts and disbursements and stipulates the use of monies, investments held in such funds and balances that are to be maintained in certain of the funds. Balances in the other funds are determined by resolution of the IPA Board of Directors. A summary of funds established by the Bond Resolution and the aggregate amount of assets held in these funds, including accrued interest receivable as of June 30, 2018 and 2017, is as follows (in thousands):

	2018	2017
Restricted assets:		
Subordinated Indebtedness Fund:		
Debt Service Account	$ 83,919	$ 154,300
Debt Service Reserve Account	3,441	7,099
Self-Insurance Fund	4,536	4,623
Total restricted assets	91,896	166,022
Revenue Fund (Note 10)	164,313	212,748
Total	$ 256,209	$ 378,770

The reconciliation of the current assets as reported in the accompanying statements of net position to the Revenue Fund at June 30, 2018 and 2017, is as follows (in thousands):

	2018	2017
Current assets reported in statements of net position:		
Cash and cash equivalents	$ 2,505	$ 2,445
Investments	161,202	209,706
Interest receivable	606	597
Revenue Fund	$ 164,313	$ 212,748

Covenants **–** The Bond Resolution has imposed certain covenants upon IPA which, among others, include a promise to establish rates sufficient to pay the bondholders scheduled interest and principal payments and to make such payments on a timely basis, keep proper books of record and account, and comply with certain financial reporting and auditing requirements. IPA believes that it is in compliance with all covenants as of June 30, 2018 and 2017.

Defeasance of Debt **–** During the year ended June 30, 2018, the proceeds of the sale of the 2018 Series A Bonds and certain other funds were used to defease $114,591,000 of previously issued Bonds. Accordingly, all amounts related to the defeased Bonds were removed from the statement of net position, which resulted in a decrease in the deferred refunding charge on defeasance of debt of $7,757,000. The refunding reduced total debt service payments over the next 5 years by $11,564,000 and results in an economic gain (i.e. the difference between present value of the debt service payments on the old and the new debt) of $10,763,000. The aggregate outstanding principal amount of Bonds extinguished through prior period bond defeasance was $139,275,000 at June 30, 2018.

During the year ended June 30, 2018, $18,289,000 of prior series Bonds were retired with cash held for such purposes by IPA (see Note 10). Accordingly, all amounts related to the retired Bonds were removed from the statement of net position, which resulted in a charge on retired debt during the year ended June 30, 2018 of $264,000. Because these bonds were retired rather than defeased through a refunding, the charge on retired debt has been reflected as an expense in the accompanying statements of revenue and expenses. No bonds were defeased during the year ended June 30, 2017.

6. SUBORDINATED NOTES PAYABLE

IPA and the California Purchasers (see Note 10) have entered into the Intermountain Power Project Prepayment Agreement ("Prepayment Agreement"). Pursuant to the Prepayment Agreement, a California Purchaser, upon providing IPA sufficient funds, can direct IPA to defease certain IPA outstanding Bonds. In consideration for IPA's use of the California Purchaser's funds to defease such outstanding Bonds, IPA issues to the California Purchaser a subordinated note or notes payable. Such subordinated notes payable are not subject to early redemption by IPA and are not transferable by the holder, but otherwise carry terms substantially equivalent to the defeased Bonds (subject to certain adjustments, some of which can result in negative interest) and are junior and subordinate to Bonds payable and commercial paper notes.

As of June 30, 2018 and 2017, the principal amount of interest bearing subordinated notes payable consisted of the following (in thousands):

Note Holder	Issue Date	Final Maturity on July 1	2018	2017
LADWP	2/10/2000	2021	$ 161,696	$ 165,115
LADWP	3/2/2000	2023	345,897	357,440
LADWP	5/2/2000	2021	48,998	49,590
LADWP	9/7/2000	2017	-	504
LADWP	7/20/2005	2019	31,280	63,735
City of Pasadena	1/29/2009	2023	24,998	31,122
Total subordinated notes payable			612,869	667,506
Unamortized discount			(14,448)	(18,852)
Current maturities of subordinated notes payable			(127,899)	(54,637)
Long-term portion of subordinated notes payable			$ 470,522	$ 594,017

The changes in the par value of subordinated notes payable for the years ended June 30, 2018 and 2017, are as follows (in thousands):

	2018	2017
Beginning balance	$ 667,506	$ 695,079
Deductions - principal maturities	(54,637)	(27,573)
Ending balance	$ 612,869	$ 667,506

The principal amounts of future maturities and interest to be paid (received) on subordinated notes payable as of June 30, 2018, are as follows (in thousands):

	Principal	Interest
Years ending June 30:		
2019	$ 127,899	$ 17,592
2020	165,323	1,928
2021	162,503	(13,513)
2022	74,971	(14,686)
2023	75,791	(5,015)
2024	6,382	(53)
Total	$ 612,869	$ (13,747)

7. COMMERCIAL PAPER NOTES

An amended subordinated indebtedness resolution allows IPA to currently issue commercial paper notes in amounts not to exceed $100,000,000 outstanding at any one time. The commercial paper notes outstanding at June 30, 2018 of $95,500,000 bear interest between 1.22% and 1.78% with remaining maturities ranging between 5 and 81 days. The commercial paper notes outstanding at June 30, 2017 of $100,000,000 bore interest between 0.88% and 0.95% with remaining maturities ranging between 5 and 40 days.

IPA has entered into certain credit agreements with third parties equal to the outstanding principal portion of the commercial paper notes. The credit agreements will provide funds, if required, to pay the outstanding principal of the commercial paper notes. The credit agreements, if utilized, create subordinated bank notes. At June 30, 2018 and 2017, there were no borrowings under these agreements.

8. ADVANCES FROM SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

In accordance with the STS Agreement, SCPPA has funded an allocable portion of certain of IPA's reserves. The advances from SCPPA run concurrently with the life of the Project. Management believes that advances from SCPPA in the accompanying financial statements meet those required under the STS Agreement.

9. ASSET RETIREMENT OBLIGATIONS

IPA's transmission facilities are generally located upon land that is leased from Federal and certain state governments. Upon termination of the leases, the structures, improvements and equipment are to be removed and the land is to be restored. Because these leases are expected to be renewed indefinitely and because of the inherent value of the transmission corridors, the leases have no foreseeable termination date and, therefore, the fair value of asset retirement obligations (ARO) related to the transmission facilities cannot be reasonably estimated. IPA also has certain ARO related to other long-lived assets at or near the generation station site.

These obligations are related to the reclamation of certain rights-of-way, wastewater ponds, settling ponds, landfills and other facilities that may affect ground water quality.

On April 17, 2015, the EPA published the Disposal of Coal Combustion Residual (CCR) from Electric Utilities final rule (CCR Rule) in the Federal Register, setting October 19, 2015 as the effective date of the CCR Rule. The CCR rule regulates the disposal of CCR, including coal ash, as non-hazardous solid waste in landfills and surface impoundments at active generating power plants. Initial estimates of ARO in connection with the CCR Rule were made during fiscal year 2015.

During the year ended June 30, 2018, a new decommissioning cost study was performed by third-party experts, which resulted in revisions to estimated cost assumptions used for measuring the fair value of certain previously recorded ARO. These updated cost assumptions, along with a revision in the expected settlement date from 2027 to 2025 of ARO related to CCRs from ceasing electricity generation using coal, resulted in an increase in ARO of approximately $18,609,000 000 (with a corresponding asset retirement cost included within utility plant). In addition, as a result of new permitting requirements with the State of Utah for the solid waste landfill under the CCR rule, IPA recorded additional ARO of approximately $13,796,000 during fiscal year 2018 (with a corresponding asset retirement cost included within utility plant). As changes occur to the expected timing and method of compliance and as the assumptions of underlying cost estimates are refined, the estimated ARO will continue to be updated.

The changes in the ARO for the years ended June 30, 2018 and 2017, are as follows (in thousands):

	2018	2017
Beginning balance	$ 70,305	$ 66,549
Accretion expense	3,969	3,756
Revisions in estimated cash flows	18,609	-
Liabilities incurred	13,796	-
Ending balance	$ 106,679	$ 70,305

10. POWER SALES AND POWER PURCHASE CONTRACTS

IPA has sold the entire capacity of the Project pursuant to Power Sales Contracts, as amended (the "Contracts"), to 35 utilities consisting of six California municipalities ("California Purchasers"), 23 Utah municipalities ("Utah Municipal Purchasers") and six rural electrical cooperatives ("Cooperative Purchasers") (collectively, the "Purchasers"). The California Purchasers, Utah Municipal Purchasers and the Cooperative Purchasers have contracted to purchase approximately 79%, 14%, and 7%, respectively, of the capacity of the Project. The Contracts expire on June 15, 2027. As long as any of the Bonds are outstanding, the Contracts cannot be terminated nor amended in any manner which will impair or adversely affect the rights of the bondholders. Under the terms of the Contracts, the Purchasers are obligated to pay their proportionate share of all operation and maintenance expenses and debt service on the Bonds and any other debt incurred by IPA, whether or not the Project or any part thereof is operating or operable, or its output is suspended, interrupted, interfered with, reduced, or terminated. In accordance with the Contracts, billings in excess of monthly power costs, as defined, are credited to Purchasers taking power in any fiscal year (the "Participants"). IPA recorded credits to Participants in operating revenue of approximately $28,512,000 and $33,279,000 for the years ended June 30, 2018 and 2017, respectively. Such credits to Participants are applied in the subsequent year to reduce power billings in accordance with the Contracts.

As part of IPA's strategic planning initiatives, IPA and the Purchasers executed the Second Amendatory Power Sales Contracts which provides that the Project be repowered to natural gas and that IPA offer the Purchasers renewal in their generation and associated transmission entitlements through the Renewal Power Sales Contracts (the "Renewal Contracts"). The Renewal Contracts became effective on January 17, 2017 when 100% of entitlements were accepted. The 50-year term of the Renewal Contracts is to commence upon termination of the Contracts.

A Bond Retirement and Financing Account ("BRFA") was established by the Forty-First Supplemental Power Supply Revenue Bond Resolution (the "Forty-First Supplemental Resolution"). Amounts deposited into the BRFA are held in the Revenue Fund and are to be used to purchase, redeem or defease outstanding IPA debt; for contributions required to be made by IPA in refunding bond issues; or for other financing costs since the BRFA was established. The Purchasers have elected to deposit funds into the BRFA in addition to the funds required to be paid by them to IPA for power supply costs. The remaining BRFA funds totaled approximately $57,650,000 and $73,378,000 as of June 30, 2018 and 2017, respectively.

11. RELATED PARTY TRANSACTIONS

LADWP, as Operating Agent, performed engineering and other services for the Project totaling approximately $29,289,000 and $30,442,000 for the years ended June 30, 2018 and 2017, respectively, which has been billed to IPA and charged to operations or utility plant, as appropriate. Operating Agent unbilled costs totaling $2,850,000 and $3,524,000 are included in other current assets at June 30, 2018 and 2017, respectively. Power sales to LADWP for the years ended June 30, 2018 and 2017, totaled $349,279,000 and $377,996,000, respectively. The receivable from LADWP at June 30, 2018 and 2017, was $0 and $1,168,000, respectively.

Power sales to the City of Anaheim for the years ended June 30, 2018 and 2017, totaled $71,289,000 and $76,576,000, respectively. The receivable from the City of Anaheim at June 30, 2018 and 2017, was $351,000 and $449,000, respectively.

Subordinated notes payable have been issued to LADWP (see Note 6). Interest expense on these subordinated notes payable of $11,200,000 and $24,272,000 has been recorded for the years ended June 30, 2018 and 2017, respectively, of which $698,000 and $2,752,000 was payable at June 30, 2018 and 2017, respectively.

Subordinated notes payable have been issued to the City of Pasadena (see Note 6). Interest expense on these subordinated notes payable of $656,000 and $1,183,000 has been recorded for the years ended June 30, 2018 and 2017, respectively, of which $72,000 and $90,000 was payable at June 30, 2018 and 2017, respectively.

12. COMMITMENTS AND CONTINGENCIES

Coal Supply **–** At June 30, 2018, IPA was obligated under short and long-term take-or-pay coal supply contracts for the purchase of coal. The cost of coal is computed at a base price per ton, adjusted periodically for various price and quality adjustments and includes transportation to the plant. The contracts require minimum purchases of coal over the lives of the contracts, exclusive of events of force majeure, as follows (computed using the current price under the contracts, in thousands):

Years ending June 30:	
2019	$ 164,600
2020	168,139
2021	171,770
2022	175,498
2023	179,325
Thereafter	275,886
	$ 1,135,218

The actual cost of coal purchases under the coal supply contracts for the years ended June 30, 2018 and 2017, was approximately $147,276,000 and $202,518,000, respectively.

Utah Dairy Case – On February 7, 2005, certain Utah dairy farmers located in Millard County, Utah filed suit against IPA, LADWP, IPSC and other defendants in the Third Judicial District of Utah (Salt Lake County), in the matter styled *Gunn Hill Dairy Properties, LLC, et al. v. Los Angeles Department of Water and Power, et al.*, Case No. 050700157 (the "Utah Dairy Case").

During the year ended June 30, 2017, plaintiffs instigated settlement inquiries and settlement discussions continued intermittently for several weeks, resulting in a settlement agreement being signed by all plaintiffs and/or the bankruptcy trustee for those dairies involved in bankruptcy proceedings. The settlement was contingent on approvals by those bankruptcy courts involved, which approvals were obtained. On August 26, 2017, the trial court adopted and entered defendants' proposed final order dismissing all of plaintiffs' claims and causes of action with prejudice. The order of dismissal entered by the court brought this longstanding litigation to an end. The settlement terms are confidential per the settlement agreement, but the settlement had no negative financial impact on IPA or the other defendants.

Clean Air Act New Source Review – IPA received from EPA in 2010 and 2011 requests for information, pursuant to Section 114 of the Clean Air Act ("CAA"), concerning the construction, modification and operation of the Project. IPA responded to these requests in 2010-2012, and later provided additional information in response to follow-up questions and requests from EPA. These Section 114 requests are part of a national enforcement initiative that EPA has undertaken under the CAA against owners and operators of electric generating facilities. EPA generally asserts that the industry has failed to comply with the New Source Review provision of the CAA ("NSR"), arguing that industries have made certain physical or operational changes at their plants that should have resulted (or "triggered") additional regulatory requirements under the NSR program. With respect to IPA, EPA asserts that certain uprate projects undertaken at the station in 2002-2004 triggered NSR. On February 19, 2015, IPA received from Sierra Club a Notice of Intent to Sue under the CAA, also alleging that the uprate projects triggered NSR.

IPA has met with EPA and the United States Department of Justice (DOJ) to discuss potential resolution of this investigation on several occasions since 2012, with the most recent meeting taking place March 20, 2017. To date, EPA has not issued a notice of violation, or initiated other formal enforcement action against IPA with regard to this matter. Likewise, the Sierra Club has filed no lawsuit. If the government were to file an enforcement action, and/or if Sierra Club were to file a lawsuit under the citizen suit provisions of the CAA, either could request that the court order injunctive relief to require additional emissions control equipment at the facility and civil penalties of up to $37,500 per day for each alleged violation that occurred before November 2, 2015; and up to $97,229 per day for each alleged violation that occurred after November 2, 2015. It is not possible to predict whether these claims will be asserted or what likelihood there is of any unfavorable outcome.

Other Litigation – IPA is also in other litigation arising from its operating activities. The probability or extent of unfavorable outcomes of these suits is not presently determinable.

California Greenhouse Gas Initiatives – For several years, California policy makers have sought to limit greenhouse gas emissions in California. Both the Los Angeles City Council and the State of California have adopted renewable portfolio standards, which, among other things require LADWP and the other California utilities to serve 33% and 50% of their load with renewable energy by 2020 and 2030, respectively. On September 29, 2006, California Senate Bill 1368 – An Act to Impose Greenhouse Gas Performance Standards on Locally Owned Public Utilities (SB 1368) was signed into law. SB 1368 was directed specifically at limiting greenhouse gas emissions associated with electric power consumed in California by prohibiting California electric providers from entering into long-term financial commitments for base load generation unless such generation complies with greenhouse gas emission performance standards. On September 10, 2018, California Senate Bill 100 (SB 100) was signed into law. SB 100 states California policy that eligible renewable energy resources and zero-carbon resources supply 100% of retail sales of electricity to California end-use customers by December 31, 2045. SB 100 also accelerates the existing target of 50% renewable energy by 2030, to 60%

renewable energy by 2030. While these and other actions by California policy makers have the potential to impact IPA and its power purchasers, IPA does not believe that any of these initiatives will render existing Power Sales Contracts between IPA and the California Purchasers void, ineffective or unenforceable

Other Environmental Regulation – The EPA has proposed regulation of certain greenhouse gases emissions. Future federal and state legislative and regulatory action may also result from the increasing intensity of national and international attention to climate change. Legislative and regulatory actions, both nationally and in California, have had and may yet have significant (yet hard to quantify) effects on IPA and the Purchasers.

13. WORKING CAPITAL LINE OF CREDIT

IPA has entered into a working capital credit agreement with Bank of America NA (BANA) that allows IPA to borrow funds from time to time to provide working capital for the payment of costs of acquisition and construction of the Project and/or for the payment of operating costs. Amounts borrowed as revolving loans under the BANA agreement were required to be repaid or converted to a term loan no later than February 1, 2018. Effective February 1, 2018, the agreement was amended to reduce the commitment under the BANA agreement from $100,000,000 to $70,000,000 and thereafter downward in an amount equal to any subsequent payments. At June 30, 2018, the commitment was $45,000,000. The amendment also eliminated the required amortization schedule. The entire principal of the term loan under the BANA agreement is required to be paid in full by February 1, 2020. As of June 30, 2018 and 2017, the borrowings under the BANA agreement totaled $45,000,000 and $75,000,000 and bore interest at 2.871% and 1.989%, respectively. Interest is calculated as LIBOR plus 0.78%. There is no collateral required on these borrowings. IPA is subject to certain covenants in connection with this credit agreement. IPA believes that it is in compliance with all covenants as of June 30, 2018.

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INTERMOUNTAIN POWER AGENCY

SUPPLEMENTAL SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE IPA REVENUE BOND RESOLUTION FOR THE YEARS ENDED JUNE 30, 2017 AND 2018 (IN THOUSANDS)

		Restricted Assets			
		Subordinated Indebtedness Fund			
	Revenue Fund	Debt Service Account	Debt Service Reserve Account	Self-Insurance	Total
BALANCE, JULY 1, 2016	$ 178,735	$ 102,068	$ 9,707	$ 4,677	$ 295,187
ADDITIONS:					
Power billings received	546,479				546,479
Other revenues	1,009				1,009
Investment earnings	3,070	571	(26)	(54)	3,561
Advances from line of credit	75,000				75,000
Total	625,558	571	(26)	(54)	626,049
DEDUCTIONS:					
Operating expenditures	370,021				370,021
Capital expenditures	17,949				17,949
Interest paid		44,903			44,903
Bond and subordinated note principal paid		108,973			108,973
Repayments to Southern California Public Power Authority	620				620
Total	388,590	153,876			542,466
TRANSFERS:					
Transfer of revenues to other Funds	(205,510)	205,537	(27)		
Other transfers	2,555		(2,555)		
Total	(202,955)	205,537	(2,582)		
BALANCE, JUNE 30, 2017	$ 212,748	$ 154,300	$ 7,099	$ 4,623	$ 378,770

(Continued)

INTERMOUNTAIN POWER AGENCY

SUPPLEMENTAL SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE IPA REVENUE BOND RESOLUTION FOR THE YEARS ENDED JUNE 30, 2017 AND 2018 (IN THOUSANDS)

		Restricted Assets			
		Subordinated Indebtedness Fund			
	Revenue Fund	Debt Service Account	Debt Service Reserve Account	Self-Insurance	Total
BALANCE, JULY 1, 2017	$ 212,748	$ 154,300	$ 7,099	$ 4,623	$ 378,770
ADDITIONS:					
Proceeds from issuance of Bonds	115,975				115,975
Power billings received	496,669				496,669
Other revenues	3,802				3,802
Investment earnings	3,850	(269)	(5)	(86)	3,490
Advances from line of credit	10,000				10,000
Total	630,296	(269)	(5)	(86)	629,936
DEDUCTIONS:					
Defeasance and retirement of Bonds	133,830	1,486	440		135,756
Operating expenditures	330,298				330,298
Capital expenditures	16,448				16,448
Interest paid		29,094			29,094
Bond and subordinated note principal paid		195,347			195,347
Payments on line of credit	40,000				40,000
Commercial paper principal paid		4,500			4,500
Bond issuance costs	1,054				1,054
Total	521,630	230,427	440		752,497
TRANSFERS:					
Transfer of revenues to other Funds	(160,281)	160,315	(33)	(1)	
Other transfers	3,180		(3,180)		
Total	(157,101)	160,315	(3,213)	(1)	
BALANCE, JUNE 30, 2018	$ 164,313	$ 83,919	$ 3,441	$ 4,536	$ 256,209

(Concluded)