Intermountain Power Agency

Financial Statements as of and for the Years Ended June 30, 2019 and 2018, Supplemental Schedule for the Years Ended June 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2018, IPA adopted Governmental Accounting Standards Board No. 83, *Certain Asset Retirement Obligations*. Our opinion is not modified with respect to this matter.

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, 2018 and 2019 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 27, 2019

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 deferred inflow) 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 deferred inflow 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, 2019 and 2018, total accumulated Project costs billed to participants exceeded accumulated U.S. GAAP expenses, resulting in a deferred inflow, 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, 2019, 2018 and 2017 (in thousands):

Assets	**2019**	**2018**	**2017**
Utility plant, net	$ 794,242	$ 867,352	$ 940,069
Cash, cash equivalents, and investments	222,015	255,592	378,133
Other	61,589	136,018	146,893
Total assets	1,077,846	1,258,962	1,465,095
Deferred outflows of resources	66,116	87,668	85,739
Total assets and deferred outflows of resources	$ 1,143,962	$ 1,346,630	$ 1,550,834

Liabilities			
Debt	$ 611,799	$ 813,055	$ 1,036,728
Commercial paper notes	66,900	95,500	100,000
Other	249,221	267,081	297,763
Total liabilities	927,920	1,175,636	1,434,491
Net costs billed to participants not yet expensed	214,839	170,225	115,974
Other	1,203	769	369
Total deferred inflows of resources	216,042	170,994	116,343
Total liabilities and deferred inflows of resources	$ 1,143,962	$ 1,346,630	$ 1,550,834

Revenues and Expenses			
Operating revenues, net	$ 606,884	$ 500,454	$ 538,147
Fuel	(193,000)	(180,364)	(163,029)
Other operating expenses	(329,579)	(224,840)	(195,547)
Operating income	84,305	95,250	179,571
Non-operating income	2,323	3,802	1,009
Net interest charges	(42,014)	(44,801)	(67,198)
Net costs billed to participants not yet expensed	(44,614)	(54,251)	(113,382)
Change in net position	$ -	$ -	$ -

As discussed in Note 1 to the financial statements, effective July 1, 2018, IPA adopted Governmental Accounting Standards Board (GASB) No. 83, *Certain Asset Retirement Obligations*. The accounting changes adopted to conform to the provisions of GASB Statement No. 83 were applied retroactively by restating the financial statements for the year ended June 30, 2018. GASB Statement No. 83 requires an asset retirement obligation (ARO) to be measured based on the best estimate of the current value of outlays expected to be incurred. Prior to the adoption of GASB Statement No. 83, IPA recorded AROs at estimated fair value based on an expected present value technique.

Financial Highlights:

Assets

The net increase in gross utility plant of $43 million in 2019 resulted from additions of $50 million offset by retirements of $7 million. The 2019 additions were principally for the continuation of the replacement of circuit breakers at both the Intermountain and Adelanto Converter Stations, the replacement of the dead tank breaker at Adelanto, additional installation of groundwater remediation wells, and the reinforcement of sections of the circulating water line. The decrease of $16 million in gross utility plant in 2018 was due primarily to the adjustments in the measurement of AROs and the reclassification of related asset retirement costs of $29 million to conform with the guidance in GASB Statement No. 83. This reclassification was offset by 2018 additions of $15 million and retirements of $2 million. 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. The net increase in accumulated depreciation of $116 million in 2019 resulted from depreciation expense of $123 million offset by retirements of $7 million. The net increase in accumulated depreciation of $57 million in 2018 resulted from depreciation expense of $107 million offset by retirements of $2 million, and the reclassification of $48 million related to the adoption of GASB Statement No. 83.

The 2019 decrease in cash, cash equivalents and investments, combined current and restricted of $34 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 2019. Likewise, the 2018 decrease 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).

The decrease of $74 million in other assets was caused primarily by a $63 million reduction of coal inventory from the continuation of the planned usage of existing coal reserves instead of new coal purchases to meet the scheduled plant operation for fiscal year 2019. As of June 2019, coal inventory reserves are at the optimal level for a 60-day reserve. In addition, other assets decreased by $11 million with the collection of insurance claims of $15 million relating to the replacement of the transformer at the Adelanto Converter Station, offset by an increase of $4 million in prepaid insurance. The 2018 decrease of $11 million 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 assets 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 2018 fiscal year end, but not received until fiscal year 2019.

Deferred Outflows of Resources

Deferred outflows of resources primarily consist of unamortized refunding charge on defeasance of debt and unamortized asset retirement costs. The decrease of $22 million in 2019 was principally due to normal amortization. The increase of $2 million in 2018 was due to the effects of GASB Statement No. 83, which required unamortized asset retirement costs to be reclassified from utility plant to deferred outflows of resources, net of normal amortization.

Liabilities

During 2019, $202 million of scheduled principal maturities on bonds and subordinated notes were paid. Commercial paper notes decreased by $29 million through scheduled sinking fund payments. Other liabilities decreased by $18 million in 2019. The decrease was primarily attributable to a $45 million reduction associated with the final payments and closure of the working line of credit (see Note 13) and a $23 million decrease in the credit to participants, offset by a $26 million increase in personnel service contract and other obligations related to pension and other postretirement benefit obligations, and a $22 million increase in other accounts payable primarily due to higher outstanding coal payments compared to the prior year associated with the completion of the coal inventory reduction plan.

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 $30 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 and other 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 $52 million increase in AROs resulting from liabilities incurred, revisions to the timing and amount of the original cash flows used for measuring the fair value of certain other previously recorded AROs, and the adoption of GASB Statement No. 83, which requires AROs that were previously recognized at fair value to be measured based on the best estimate of the current value of outlays expected to be incurred.

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. All ratings are unchanged from the prior year.

Deferred Inflows of Resources

At June 30, 2019 and 2018, total accumulated Project costs billed to participants exceeded accumulated U.S. GAAP expenses. Accordingly, the excess of such billings is reported as a deferred inflow, net costs billed to participants not yet expensed at June 30, 2019 and 2018. The resulting changes in net costs billed to participants not yet expensed are outlined in Note 4.

Revenues and Expenses

Net operating revenues increased $106 million in 2019 and decreased by $38 million in 2018. In 2019, the increase is primarily due to additional revenue that was billed to the Purchasers for scheduled bond principal and interest payments. Conversely, in 2018, the decrease is primarily due to less revenue that was billed to the Purchasers for scheduled bond principal and interest payments. In addition, changes in revenues from corresponding changes to net costs billed to participants not yet expensed in both 2019 and 2018 are due principally to the following: an increase of $50 million and a decrease of $26 million in 2019 and 2018, respectively, for bond, subordinated note and commercial paper notes principal requirements; a $96 million increase in 2019 and $37 million decrease in 2018, respectively, in billings for previously deferred expenses in conformity with U.S. GAAP, and an increase of $36 million in 2019 and a decrease of $1 million in 2018, respectively, for capital improvements and required fund deposits.

Fuel expense increased by $13 million and $17 million in 2019 and 2018, respectively. The increase in 2019 in primarily related to a 7% increase in net capacity during the year. 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. Other operating expenses increased by $105 million in 2019 due primarily changing discount rates and other assumptions associated with the actuarial estimate of the personnel service contract and other obligations and changes in the fair value of the underlying assets. The related net liability increased by $26 million in 2019 compared to a decrease of $33 million in 2018 which resulted in a $59 million increase in operating expenses compared to 2018. The remaining increase in operating expense is associated with the 7% increase in net capacity during 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 and other 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.

Net interest charges decreased by $2 million in 2019 corresponding to the decrease in outstanding debt. Net interest charges decreased by $22 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 and a $4 million reduction in accretion of AROs related to the adoption of GASB Statement No. 83, offset by a $1 million increase in financing expenses caused by issuance costs associated with the 2018 Series A refinancing. Other non-operating income decreased by $1 million in 2019 and increased by $3 million in 2018 primarily due to fluctuations in fly ash sales.

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. IPA and 32 of the Purchasers entered into Renewal Contracts, which became effective on January 16, 2017. Two renewing California Purchasers have since provided a notice of termination of its Renewal Contracts to IPA effective November 1, 2019. The 50-year term of the Renewal Contracts is to commence upon the termination of the Contracts.

On September 24, 2018, IPA and the Purchasers approved changes to the repowering that 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. On August 6, 2019, the IPA Board and Intermountain Power Project (IPP) Coordinating Committee formally approved the Retirement Plan for the decommissioning and retirement of the existing facilities that are not to be used for the generation or transmission of power pursuant to the Contracts or the Renewal Contracts. The Retirement Plan, as currently approved, contemplates additional retirement and dismantling of existing assets beyond what is considered the asset retirement obligations as of June 30, 2019. These additional asset retirement obligations are currently estimated to be approximately $62 million. The updated estimate of these and other ARO costs will be included in IPA's financial statements for the year ending June 30, 2020.

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INTERMOUNTAIN POWER AGENCY

STATEMENTS OF NET POSITION, JUNE 30, 2019 AND 2018 (IN THOUSANDS)

ASSETS	2019	2018
UTILITY PLANT:		
Electric plant in service	$ 3,091,197	$ 3,048,755
Less accumulated depreciation	(2,296,955)	(2,181,403)
Net	794,242	867,352
RESTRICTED ASSETS:		
Cash and cash equivalents	11	17
Investments	47,628	91,868
Interest receivable	37	11
Total	47,676	91,896
OTHER NON-CURRENT ASSETS	1,312	1,427
Total Non-Current Assets	843,230	960,675
CURRENT ASSETS:		
Cash and cash equivalents	2,500	2,505
Investments	171,876	161,202
Interest receivable	617	606
Receivable from participants	2,364	1,404
Fuel inventories	31,598	94,718
Materials and supplies	20,306	21,677
Other	5,355	16,175
Total Current Assets	234,616	298,287
Total Assets	1,077,846	1,258,962
DEFERRED OUTFLOWS OF RESOURCES:		
Unamortized refunding charge	34,498	53,356
Unamortized asset retirement costs	30,364	33,145
Other	1,254	1,167
Total Deferred Outflows of Resources	66,116	87,668
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,143,962	$ 1,346,630

See notes to financial statements.

(Continued)

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF NET POSITION, JUNE 30, 2019 AND 2018 (IN THOUSANDS)

LIABILITIES	2019	2018
LONG-TERM PORTION OF BONDS PAYABLE - Net	$ 112,097	$ 140,114
LONG-TERM PORTION OF SUBORDINATED NOTES PAYABLE - Net	310,269	470,522
LONG-TERM LINE OF CREDIT	-	45,000
ADVANCES FROM SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY	10,930	10,930
OTHER NON-CURRENT LIABILITIES:		
Personnel services contract and other obligations	52,356	26,717
Asset retirement obligations	124,107	122,153
Total	176,463	148,870
CURRENT LIABILITIES:		
Commercial paper notes	66,900	95,500
Current maturities of bonds payable	24,110	74,520
Current maturities of subordinated notes payable	165,323	127,899
Interest payable	4,804	4,599
Accrued credit to participants	5,431	28,370
Accounts payable and accrued liabilities	51,593	29,312
Total Current Liabilities	318,161	360,200
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 1, 7, 10, and 12)		
Total Liabilities	927,920	1,175,636
DEFERRED INFLOWS OF RESOURCES:		
Net costs billed to participants not yet expensed	214,839	170,225
Other	1,203	769
Total Deferred Inflows of Resources	216,042	170,994
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$ 1,143,962	$ 1,346,630

See notes to financial statements.

(Concluded)

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018 (IN THOUSANDS)

	2019	2018
OPERATING REVENUES:		
Power sales to participants	$ 612,457	$ 528,966
Less credit to participants	(5,573)	(28,512)
Net revenues	606,884	500,454
OPERATING EXPENSES:		
Fuel	193,000	180,364
Operation	119,093	41,050
Maintenance	63,436	58,012
Depreciation and amortization	127,760	106,982
Taxes and payment in lieu of taxes	19,290	18,796
Total expenses	522,579	405,204
OPERATING INCOME	84,305	95,250
NON-OPERATING INCOME	2,323	3,802
INTEREST CHARGES:		
Interest on bonds, subordinated notes, and other debt	25,865	23,375
Financing expenses (principally amortization of bond discount and refunding charge on defeasance of debt)	21,349	24,652
Charge on retirement of debt	-	264
Earnings on investments	(5,200)	(3,490)
Net interest charges	42,014	44,801
NET COSTS BILLED TO PARTICIPANTS NOT YET EXPENSED	44,614	54,251
CHANGE IN NET POSITION	$ -	$ -

See notes to financial statements.

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018 (IN THOUSANDS)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from power billings to participants	$ 582,985	$ 496,669
Other cash receipts	2,323	3,802
Cash paid to suppliers	(271,962)	(330,298)
Net cash provided by operating activities	313,346	170,173
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Advances from line of credit	-	10,000
Repayments on line of credit	(45,000)	(40,000)
Net cash used in noncapital financing activities	(45,000)	(30,000)
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	(202,419)	(195,347)
Commercial paper principal paid	(28,600)	(4,500)
Interest paid on bonds, subordinated notes and commercial paper	(25,660)	(29,094)
Additions to electric plant in service	(50,407)	(16,448)
Net cash used in capital and related financing activities	(307,086)	(266,224)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(10,870,020)	(8,614,801)
Proceeds from sales/maturities of investments	10,905,007	8,732,254
Interest earnings received on investments	3,742	3,320
Net cash provided by investing activities	38,729	120,773
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11)	(5,278)
CASH AND CASH EQUIVALENTS:		
Beginning balance	2,522	7,800
Ending balance	$ 2,511	$ 2,522

See notes to financial statements.

(Continued)

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018 (IN THOUSANDS)

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 84,305	$ 95,250
Other non-operating income	2,323	3,802
Depreciation and amortization	127,760	106,982
Financing expenses, net of amortization of bond discount and refunding charge on defeasance of debt	(1,328)	(2,719)
Changes in operating assets and liabilities:		
Receivable from participants	(960)	1,099
Fuel inventories	63,120	26,488
Materials and supplies	1,371	(1,622)
Other current assets	10,820	(14,307)
Personnel services contract and other obligations	25,639	(32,718)
Accounts payable and accrued liabilities	22,773	(6,837)
Accrued credit to participants	(22,939)	(4,884)
Other assets	115	(803)
Deferred outflows of resources - other	(87)	41
Deferred inflows of resources - other	434	401
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 313,346	$ 170,173

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Accounts payable and accrued liabilities included $781 and $1,274 at June 30, 2019 and 2018, 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 and other 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.

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, 2019 and 2018, 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, 2019 and 2018.

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. Such restricted amounts are considered cash equivalents for purposes of the statements of cash flows.

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, 2019 and 2018 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 $18,492,000 and $23,604,000 greater than the stated last-in, first-out value at June 30, 2019 and 2018, 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.

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 Statement No. 62 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 deferred inflow) 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 deferred inflow 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, 2019 and 2018, total accumulated Project costs billed to participants to date exceeded accumulated U.S. GAAP expenses, resulting in a deferred inflow, 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 remove assets and liabilities recognized pursuant to IPA's regulated operations 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, 2019, costs deferred are probable of recovery through future billings.

Long-Lived Assets – IPA evaluates the carrying value of long-lived assets based upon an evaluation of indicators of impairment including evidence of physical damage, enactment or approval of laws and regulations, technological developments, changes in the manner or expected duration of use of a long-lived asset, and changes in demand. A long-lived asset that is potentially impaired is then tested to determine whether the magnitude of the decline in service utility is significant and unexpected. Measurement of the amount of impairment, if any, is based upon a restoration cost approach, service units approach, or deflated depreciated replacement cost approach, or 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 when the liability associated with the retirement of its tangible long-lived assets is both incurred and reasonably estimable. The determination of when the liability is incurred is based on the occurrence of 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, with a deferred outflow of resources recognized at the amount of the corresponding liability upon initial measurement. The current value of an ARO is adjusted for the effects of general inflation or deflation at least annually. All relevant factors are evaluated 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. The deferred outflows of resources of asset retirement costs is amortized over the estimated useful life of the tangible capital assets. See discussion below regarding the adoption of GASB Statement No. 83 and Note 9 for additional information on IPA's asset retirement obligations.

Recently Adopted 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, and a deferred outflow of resources is recognized at the amount of the corresponding liability upon initial measurement. 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 associated with an ARO should be reduced and recognized as outflows of 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 adopted this statement effective July 1, 2018 and the accounting changes adopted to conform to the provisions of this statement were applied retroactively by restating the financial statements for the prior year presented.

Prior to the adoption of GASB Statement No. 83, IPA recorded AROs at estimated fair value based on an expected present value technique and recognized period-to-period changes resulting from the passage of time and revisions to either the timing or the amount of the cash flows estimated to settle such obligations. Changes resulting from revisions to the timing or the amount of the estimated cash flows were recognized as an increase or a decrease in the carrying amount of the AROs and the related asset retirement cost included in electric plant in service, which cost was amortized to expense over the estimated useful life of the asset. The table below shows the restated amounts compared to the amounts originally reported on the financial statements for the year ended June 30, 2018 (in thousands).

	2018	
	Amount as Reclassified	**Amount as Originally Reported**
Statement of Net Position		
Assets:		
Electric plant in service	$ 3,048,755	$ 3,110,193
Less accumulated depreciation	(2,181,403)	(2,229,341)
Net utility plant	867,352	880,852
Deferred Outflows of Resources:		
Unamortized asset retirement costs	33,145	-
Liabilities:		
Asset retirement obligations	122,153	106,679
Deferred Inflows of Resources:		
Net costs billed to participants not yet expensed	170,225	166,054
Statement of Revenues and Expenses		
Operating Expenses:		
Depreciation and amortization	106,982	107,184
Operating Income	95,250	95,048
Interest Charges:		
Accretion of asset retirement obligations	-	3,969
Net Costs Billed to Participants Not Yet Expensed	54,251	50,080

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. Adoption of this statement did not have a material effect on the financial statements.

***Recently Issued Accounting Pronouncements* –** In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement established criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the financial statements. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. IPA is currently evaluating the effects of 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 June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement is effective for reporting periods beginning after December 15, 2019. IPA is currently evaluating the effects the adoption of this statement will have on the financial statements.

Restatement of Prior Year Financial Statements – Subsequent to the issuance of the financial statements for the year ended June 30, 2018, IPA's management determined that the balance of net costs billed to participants not yet expensed of $170,225,000 as of June 30, 2018 (after giving effect to the adoption of GASB Statement No. 83 discussed above, which resulted in a change to the originally reported balance of $166,054,000), was inappropriately presented as a non-current liability rather than as a deferred inflow of resources within the statement of net position. Accordingly, management has corrected the classification error in the statement of net position as of June 30, 2018. As a result of the correction and the adoption of GASB Statement No. 83, deferred inflows of resources increased by $170,225,000 with a corresponding decrease to non-current liabilities, and no effect on the combined total of liabilities and deferred inflows of resources. Management has determined that this classification adjustment is not material to the fiscal 2018 financial statements.

2. UTILITY PLANT

Utility plant activity for the years ended June 30, 2019 and 2018, is as follows (in thousands):

	July 1, 2018	Increases	Decreases	June 30, 2019
Utility plant not being depreciated - Construction work-in-progress	$ 6,368	$ 8,223	$ -	$ 14,591
Utility plant being depreciated/amortized:				
Production	2,917,217	5,132	(1,119)	2,921,230
Transmission	814,554	33,926	(6,282)	842,198
Payments-in-aid of construction - transmission	(739,937)	-	-	(739,937)
General	50,553	2,633	(72)	53,114
Total	3,042,387	41,691	(7,473)	3,076,605
Accumulated depreciation	(2,656,057)	(137,306)	7,473	(2,785,890)
Accumulated amortization of payments-in-aid of construction	474,654	14,282	-	488,936
Total accumulated depreciation	(2,181,403)	(123,024)	7,473	(2,296,954)
Utility Plant, Net	$ 867,352	$ (73,110)	$ -	$ 794,242

	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	2,881,390	38,020	(2,193)	2,917,217
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	3,000,052	44,559	(2,224)	3,042,387
Accumulated depreciation	(2,539,908)	(118,373)	2,224	(2,656,057)
Accumulated amortization of payments-in-aid of construction	463,467	11,187	-	474,654
Total accumulated depreciation	(2,076,441)	(107,186)	2,224	(2,181,403)
Utility Plant, Net	$ 926,570	$ (59,218)	$ -	$ 867,352

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments consist of the following at June 30, 2019 and 2018 (in thousands):

	2019		2018	
	Fair Value	Weighted Average Remaining Maturity	Fair Value	Weighted Average Remaining Maturity
Cash and Cash Equivalents:				
Restricted:				
Cash	$ 11	1 day or less	$ 17	1 day or less
Total Restricted	11		17	
Current:				
Cash	2,500	1 day or less	2,505	1 day or less
Total Current	2,500		2,505	
Total Cash and Cash Equivalents	$ 2,511		$ 2,522	
Investments:				
Restricted:				
U.S. Agencies	$ 7,677	0.87 years	$ 9,384	1.51 years
Commercial paper	27,319	1 days or less	78,167	2 days or less
Corporate bonds	12,632	1.49 years	4,317	1.27 years
Total Restricted	47,628		91,868	
Current:				
U.S. Treasuries	-		1,527	0.67 years
U.S. Agencies	85,334	0.59 years	72,668	1.31 years
Corporate bonds	86,542	1.49 years	87,007	1.27 years
Total Current	171,876		161,202	
Total Investments	$ 219,504		$ 253,070	

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, 2019, approximately $2,511,000 of IPA's bank balances are uninsured and uncollateralized.

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, 2019 and 2018, IPA's fair value measurements and their levels within the fair value hierarchy were as follows (in thousands):

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments by fair value level:				
U.S. Agencies	$ -	$ 93,011	$ -	$ 93,011
Commercial paper	-	27,319	-	27,319
Corporate bonds	-	99,174	-	99,174
Total investments by fair value level	$ -	$ 219,504	$ -	$ 219,504

	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

4. NET COSTS BILLED TO PARTICIPANTS NOT YET EXPENSED

Net costs billed to participants not yet expensed for the years ended June 30, 2019 and 2018, and the accumulated totals as of June 30, 2019 and 2018, consisted of the following (in thousands):

	For the Years Ended June 30,		Accumulated Totals as of June 30,	
	2019	2018	2019	2018
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 and amortization expense	(127,760)	(106,982)	(2,567,788)	(2,440,028)
Amortization of bond discount and refunding on defeasance of bonds	(20,021)	(21,933)	(1,335,525)	(1,315,504)
Accretion of interest on zero coupon bonds	-	-	(349,408)	(349,408)
Charge on retired debt	-	(264)	(157,653)	(157,653)
Cumulative effect of a change in accounting principle	-	-	(18,241)	(18,241)
Accretion of asset retirement obligations	-	-	(26,965)	(26,965)
Unrealized gains (losses) on investments	227	(606)	(380)	(607)
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	(263)	(208)	(8,650)	(8,387)
Change in liabilities	(25,639)	32,718	(64,502)	(38,863)
Other	(18,166)	1,777	(42,714)	(24,548)
Amounts billed to participants under the bond resolution and the power sales contracts:				
Bond and subordinated note principal	186,995	136,670	4,456,616	4,269,621
Deferred fuel costs	-	-	32,228	32,228
Capital improvements	48,897	12,842	547,063	498,166
Reduction of required fund deposits	344	237	3,890	3,546
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	$ 44,614	$ 54,251	$ 214,839	$ 170,225

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, 2019 and 2018. As of June 30, 2019 and 2018, for Subordinated Bonds (collectively, the "Bonds") the principal amount consisted of the following (in thousands):

Series	Bonds Dated	Final Maturity on July 1	2019	2018
Subordinated Bonds				
2013 A	4/2/2013	2018	$ -	$ 53,245
2014 A	6/23/2014	2019	24,110	45,385
2018 A	4/4/2018	2023	105,230	105,230
Total Bonds payable			129,340	203,860
Unamortized bond premium			6,867	10,774
Current maturities of Bonds payable			(24,110)	(74,520)
LONG-TERM PORTION OF BONDS PAYABLE - Net			$ 112,097	$ 140,114

Interest rates on the Bonds payable outstanding range from 2.75% to 5.00% at June 30, 2019 and June 30, 2018, respectively.

The changes in the par value of Bonds payable for the years ended June 30, 2019 and 2018, are as follows (in thousands):

	2019	2018
Beginning balance	$ 203,860	$ 372,220
Additions - Refunding bonds issued	-	105,230
Deductions:		
Principal maturities	(74,520)	(140,710)
Bonds defeased/retired	-	(132,880)
Ending balance	$ 129,340	$ 203,860

The principal amounts of future maturities, sinking fund requirements and interest to be paid for the Bonds outstanding as of June 30, 2019, are as follows (in thousands):

	Principal	Interest
Years ending June 30:		
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	$ 129,340	$ 14,760

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, 2019 and 2018, is as follows (in thousands):

	2019	2018
Restricted assets:		
Subordinated Indebtedness Fund:		
Debt Service Account	$ 40,104	$ 83,919
Debt Service Reserve Account	2,951	3,441
Self-Insurance Fund	4,621	4,536
Total restricted assets	47,676	91,896
Revenue Fund (Note 10)	174,993	164,313
Total	$ 222,669	$ 256,209

The reconciliation of the current assets as reported in the accompanying statements of net position to the Revenue Fund at June 30, 2019 and 2018, is as follows (in thousands):

	2019	2018
Current assets reported in statements of net position:		
Cash and cash equivalents	$ 2,500	$ 2,505
Investments	171,876	161,202
Interest receivable	617	606
Revenue Fund	$ 174,993	$ 164,313

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, 2019 and 2018.

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 $24,250,000 at June 30, 2019.

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.

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, 2019 and 2018, the principal amount of interest bearing subordinated notes payable consisted of the following (in thousands):

Note Holder	Issue Date	Final Maturity on July 1	2019	2018
LADWP	2/10/2000	2021	$ 98,964	$ 161,696
LADWP	3/2/2000	2023	314,647	345,897
LADWP	5/2/2000	2021	48,354	48,998
LADWP	7/20/2005	2019	2,361	31,280
City of Pasadena	1/29/2009	2023	20,644	24,998
Total subordinated notes payable			484,970	612,869
Unamortized discount			(9,378)	(14,448)
Current maturities of subordinated notes payable			(165,323)	(127,899)
Long-term portion of subordinated notes payable			$ 310,269	$ 470,522

The changes in the par value of subordinated notes payable for the years ended June 30, 2019 and 2018, are as follows (in thousands):

	2019	2018
Beginning balance	$ 612,869	$ 667,506
Deductions - principal maturities	(127,899)	(54,637)
Ending balance	$ 484,970	$ 612,869

The principal amounts of future maturities and interest to be paid (received) on subordinated notes payable as of June 30, 2019, are as follows (in thousands):

	Principal	Interest
Years ending June 30:		
2020	$ 165,323	$ 2,105
2021	162,503	(12,883)
2022	74,971	(14,675)
2023	75,791	(5,015)
2024	6,382	(53)
Total	$ 484,970	$ (30,521)

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, 2019 of $66,900,000 bear interest between 1.45% and 1.80% with remaining maturities ranging between 3 and 80 days. The commercial paper notes outstanding at June 30, 2018 of $95,500,000 bore interest between 1.22% and 1.78% with remaining maturities ranging between 5 and 81 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, 2019 and 2018, 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, IPA has no asset retirement obligations (AROs) recorded related to the transmission facilities. IPA does have certain AROs related to other long-lived assets at or near the generation station site resulting from applicable laws and regulations. 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. In addition, the Environmental Protection Agency (EPA) published the Disposal of Coal Combustion Residual (CCR) from Electric Utilities final rule (CCR Rule) during April 2015. 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 AROs in connection with the CCR Rule were made and recorded by IPA during fiscal year 2015. During the year ended June 30, 2018, as a result of new permitting requirements with the State of Utah for the solid waste landfill under the CCR rule, IPA recorded additional AROs of approximately $16,784,000 during fiscal year 2018 (with a corresponding deferred outflow of resources).

As of June 30, 2019 and 2018, the current value of IPA's asset retirement obligations totaled approximately $124,107,000 and $122,153,000, respectively. The current value of AROs are generally estimated based on decommissioning cost studies performed by third-party experts. The increase in the current value of AROs of approximately $1,954,000 during the year ended June 30, 2019, is due to the effects of general inflation.

On August 6, 2019, the IPA Board and Intermountain Power Project (IPP) Coordinating Committee formally approved the Retirement Plan for the decommissioning and retirement of the existing facilities that are not to be used for the generation or transmission of power pursuant to the Contracts or the Renewal Contracts (as defined below). The Retirement Plan, as currently approved, contemplates additional retirement and dismantling of existing assets beyond what is considered the asset retirement obligations as of June 30, 2019. These additional retirement obligations are currently estimated to be approximately $62,000,000. The updated estimate of these and other ARO costs will be included in IPA's financial statements for the year ending June 30, 2020.

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 $5,575,000 and $28,512,000 for the years ended June 30, 2019 and 2018, 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"). IPA and 32 of the Purchasers entered into Renewal Contracts, which became effective on January 16, 2017. Two renewing California Purchasers have since provided a notice of termination of its Renewal Contracts to IPA effective November 1, 2019. The 50-year term of the Renewal Contracts is to commence upon termination of the Contracts.

On September 24, 2018, IPA and the Purchasers approved changes to the repowering that 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.

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 remaining BRFA funds totaled approximately $58,650,000 and $57,650,000 as of June 30, 2019 and 2018, respectively.

11. RELATED PARTY TRANSACTIONS

LADWP, as Operating Agent, performed engineering and other services for the Project totaling approximately $41,499,000 and $29,289,000 for the years ended June 30, 2019 and 2018, respectively, which has been billed to IPA and charged to operations or utility plant, as appropriate. Operating Agent unbilled costs totaling approximately $6,943,000 and $2,850,000 are included in accounts payable at June 30, 2019 and 2018, respectively. Power sales to LADWP for the years ended June 30, 2019 and 2018, totaled approximately $401,422,000 and $349,279,000, respectively. The receivable from LADWP at June 30, 2019 and 2018, was approximately $1,069,000 and $0, respectively.

Power sales to the City of Anaheim for the years ended June 30, 2019 and 2018, totaled approximately $85,391,000 and $71,289,000, respectively. The receivable from the City of Anaheim at June 30, 2019 and 2018, was approximately $458,000 and $351,000, respectively.

Subordinated notes payable have been issued to LADWP (see Note 6). Interest expense on these subordinated notes payable of approximately $17,379,000 and $11,200,000 has been recorded for the years ended June 30, 2019 and 2018, respectively, of which approximately $1,389,000 and $698,000 was payable at June 30, 2019 and 2018, respectively.

Subordinated notes payable have been issued to the City of Pasadena (see Note 6). Interest expense on these subordinated notes payable of approximately $723,000 and $656,000 has been recorded for the years ended June 30, 2019 and 2018, respectively, of which approximately $71,000 and $72,000 was payable at June 30, 2019 and 2018, respectively.

12. COMMITMENTS AND CONTINGENCIES

Coal Supply – At June 30, 2019, 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:	
2020	$ 168,041
2021	171,673
2022	175,400
2023	179,227
2024	183,154
Thereafter	92,585
	$ 970,080

The actual cost of coal purchases under the coal supply contracts for the years ended June 30, 2019 and 2018, was approximately $123,708,000 and $147,276,000, respectively.

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 \$99,681 per day for each alleged violation that occurred after November 2, 2015. IPA and the government entered into an agreement tolling the statute of limitations by six months starting February 15, 2012, which agreement was renewed on multiple occasions since then. The last tolling agreement renewal expired on December 31, 2018, and the government did not request that it be renewed. 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 required 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 supply100% 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 had entered into a working capital credit agreement with Bank of America NA (BANA) that allowed 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 and bore interest at 2.871%. The entire principal of the term loan under the BANA agreement was required to be paid in full by February 1, 2020. On February 28, 2019, the remaining principal balance under the loan was paid in full and the line of credit was closed.

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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, 2018 AND 2019 (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

(Continued)

INTERMOUNTAIN POWER AGENCY

SUPPLEMENTAL SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE IPA REVENUE BOND RESOLUTION FOR THE YEARS ENDED JUNE 30, 2018 AND 2019 (IN THOUSANDS)

		Restricted Assets			
		Subordinated Indebtedness Fund			
	Revenue Fund	Debt Service Account	Debt Service Reserve Account	Self-Insurance	Total
BALANCE, JULY 1, 2018	$ 164,313	$ 83,919	$ 3,441	$ 4,536	$ 256,209
ADDITIONS:					
Power billings received	582,985				582,985
Other revenues	2,323				2,323
Investment earnings	5,427	(335)	24	84	5,200
Total	590,735	(335)	24	84	590,508
DEDUCTIONS:					
Operating expenditures	271,962				271,962
Capital expenditures	50,407				50,407
Interest paid		25,660			25,660
Bond and subordinated note principal paid		202,419			202,419
Payments on line of credit	45,000				45,000
Commercial paper principal paid		28,600			28,600
Total	367,369	256,679			624,048
TRANSFERS:					
Transfer of revenues to other Funds	(213,206)	213,199	6	1	
Other transfers	520		(520)		
Total	(212,686)	213,199	(514)	1	
BALANCE, JUNE 30, 2019	$ 174,993	$ 40,104	$ 2,951	$ 4,621	$ 222,669

(Concluded)