Intermountain Power Agency

Financial Statements as of and for the Years Ended June 30, 2020 and 2019, Supplemental Schedule for the Years Ended June 30, 2020 and 2019, and Independent Auditors' Report

Deloitte & Touche LLP
111 South Main Street
Suite 1500
Salt Lake City, UT 84111-1919
USA

Tel:+1 801 328 4706
Fax:+1 801 366 7900
www.deloitte.com

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, 2020 and 2019, 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, 2020 and 2019, 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, 2019 and 2020 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, 2020

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, 2020 and 2019, 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, 2020, 2019, and 2018 (in thousands):

	2020	2019	2018
Assets			
Utility plant - net	$ 719,252	$ 794,242	$ 867,352
Cash, cash equivalents, and investments	226,076	222,015	255,592
Other	91,470	61,589	136,018
Total assets	1,036,798	1,077,846	1,258,962
Deferred outflows of resources	159,715	66,116	87,668
Total assets and deferred outflows of resources	$ 1,196,513	$ 1,143,962	$ 1,346,630
Liabilities			
Debt	$ 446,152	$ 611,799	$ 813,055
Commercial paper notes	35,200	66,900	95,500
Other	417,064	249,221	267,081
Total liabilities	898,416	927,920	1,175,636
Net costs billed to participants not yet expensed	296,402	214,839	170,225
Other	1,695	1,203	769
Total deferred inflows of resources	298,097	216,042	170,994
Total liabilities and deferred inflows of resources	$ 1,196,513	$ 1,143,962	$ 1,346,630
Revenues and Expenses			
Operating revenues - net	$ 555,007	$ 606,884	$ 500,454
Fuel	(158,934)	(193,000)	(180,364)
Other operating expenses	(294,639)	(329,579)	(224,840)
Operating income	101,434	84,305	95,250
Non-operating income	1,113	2,323	3,802
Net interest charges	(20,984)	(42,014)	(44,801)
Net costs billed to participants not yet expensed	(81,563)	(44,614)	(54,251)
Change in net position	$ -	$ -	$ -

Financial Highlights:

Assets

The net increase in gross utility plant of $34 million in 2020 resulted from additions of $35 million offset by retirements of $1 million. The 2020 additions were principally for the initial construction and engineering for the gas turbine associated with IPA repowering (see discussion of Project Repowering below), the procurement and installation of an additional spare transformer for the Adelanto Converter Station and the ongoing installation of groundwater remediation wells in compliance with environmental requirements. 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 2020 increase in cash, cash equivalents and investments, combined current and restricted of $4 million, while not significant, is due to the receipt of insurance proceeds from the 2017 transformer failure at the Adelanto Converter Station. These proceeds are included in the credit to participants at year end. 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.

The 2020 increase of $30 million in other assets was primarily caused by a $28 million increase of coal inventory due to lower power scheduling compared to that forecasted. The budget was based on a planned capacity of 65% and coal purchases were contracted accordingly, however, actual scheduled capacity was only 43%, resulting in an increase in coal inventory. The 2019 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 were 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.

Deferred Outflows of Resources

Deferred outflows of resources primarily consist of unamortized refunding charge on defeasance of debt and unamortized asset retirement costs. The increase of $94 million in 2020 was due to an additional $135 million in unamortized retirement costs (see Note 10) offset by $41 million of normal amortization. The decrease of $22 million in 2019 was principally due to normal amortization.

Liabilities

During 2020, $23 million of Transition Project Indebtedness was issued in the form of 2019 Drawdown Bonds (see Note 8) to finance initial construction for the gas renewal (see discussion of Project Repowering below). This was offset by $189 million of scheduled principal maturities on bonds and subordinated notes that were paid. Commercial paper notes decreased by $32 million through scheduled sinking fund payments. Other liabilities increased by $168 million in 2020. The increase was primarily attributable to $135 million of additional asset retirement obligations as contemplated in the Retirement Plan (see Note 10), a $31 million increase in credit to participants, a $16 million increase in personnel service contract and other obligations related to pension and other postretirement benefit obligations, offset by a $12 million decrease in accounts payable and a $2 million decrease in interest payable compared to the prior year.

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 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.

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 and drawdown bonds are not rated because they are not publicly traded. Fitch downgraded the subordinated lien bonds from AA in the prior year. All other ratings are unchanged from the prior year.

Deferred Inflows of Resources
At June 30, 2020 and 2019, 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, 2020 and 2019. The resulting changes in net costs billed to participants not yet expensed are outlined in Note 4.

Revenues and Expenses
Net operating revenues decreased $52 million in 2020 and increased by $106 million in 2019. In 2020, the decrease is primarily due to less revenue that was billed to the Purchasers associated with a decrease in scheduled power as reflected by decreased plant capacity. In 2019, the increase is primarily due to additional 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 2020 and 2019 are due principally to the following: an increase of $35 million and $50 million in 2020 and 2019, respectively, for bond, subordinated note and commercial paper notes principal requirements; a decrease of $19 million in 2020 and an increase of $96 million in 2019 in billings for previously deferred expenses in conformity with U.S. GAAP, and an decrease of $17 million in 2020 and an increase of $36 million in 2019 for capital improvements and required fund deposits.

Fuel expense decreased by $34 million in 2020 and increased by $13 million in 2019. The decrease in 2020 is primarily due to a 22% decrease in net capacity during the year. Conversely, the increase in 2019 is primarily related to a 7% increase in net capacity during that year. Other operating expenses decreased by $35 million in 2020 due primarily to a $11 million decrease in maintenance expense from the postponement of the planned spring outage due to COVID-19 concerns offset by an $8 million increase in depreciation and amortization expense due primarily to the amortization of addition asset retirement obligations as contemplated in the Retirement Plan. The remaining decrease in operating expense is due to the 22% decrease in net capacity during the year. 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.

Net interest charges decreased by $21 million in 2020 due to the decrease in outstanding debt, combined with the impact of the required adjustment to the interest rates on certain outstanding subordinated notes. The Subordinated Notes require an annual adjustment of interest rates to reflect the impact of cash flow savings from IPA retirements of bonds that had previously been defeased through subordinated notes. These adjustments resulted in certain notes having negative interest (see Note 6). Net interest charges decreased by $2 million in 2019 corresponding to the decrease in outstanding debt. Other non-operating income decreased by $1 million and by $1 million in 2020 and 2019, respectively, 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 13 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 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. All entitlement shares abandoned by non-renewing purchasers are fully allocated among the remaining purchasers. 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, which created a contractual requirement to retire certain capital assets under the Renewal Contracts. This resulted in an additional $96.4 million for the retirement and dismantling of existing generating station assets and $37.2 million for the retirement and dismantling of existing converter station assets which were recorded as asset retirement obligations during the year ended June 30, 2020.

On November 25, 2019, IPA and the Purchasers approved a Plan of Finance for funding renewal project activities that anticipates using shorter-term bridge financing in early project stages followed by long-term financing as required to fund anticipated costs to complete construction. Accordingly, on December 30, 2019, IPA entered into a bond purchase agreement with Royal Bank of Canada (RBC), by which IPA issued one subseries of Tax-Exempt Drawdown Bonds and one subseries of Taxable Drawdown Bonds, collectively called the 2019 Drawdown Series. Up to $100 million of drawdown bonds can be issued. As of June 30, 2020, $22.5 million of drawdown bonds have been issued.

On February 14, 2020, IPA awarded Mitsubishi Hitachi Power Systems a contract for two M501JAC power trains for the renewal project gas turbines. Initial milestone payments for turbine construction commenced in April 2020. The turbines will be commercially guaranteed capable of using a mix of 30% hydrogen and 70% natural gas fuel at start-up in 2025. This fuel mixture will reduce carbon emissions by more than 75% compared to the retiring coal-fueled technology.

COVID-19
In March 2020, COVID-19 was officially declared a pandemic and has been having significant effects in most markets and economies. In response to the COVID-19 pandemic, the Project's spring maintenance outage was deferred. Outside visitors were prohibited, the plant workforce was carefully screened, and social distancing protocols were implemented on site along with enhanced cleaning. The Project's workforce is cross trained and able to operate with substantially reduced manpower levels, if necessary. Emergency supplies, including food, are also stockpiled at the plant to allow continued operations under quarantine, if necessary. Throughout the pandemic, the Project has continued to operate, and IPA has not experienced any significant impact to its financial position and results of operations to date. However, the future impact of COVID-19 on IPA's financial position and results of operations will depend on may

factors, including: (i) the duration and spread of the outbreak, (ii) the restrictions and recommendations of health organizations and governments, (iii) the effects on the financial markets, and (iv) the effects in general on the economy. It is not possible to reasonably estimate the length and severity of these developments and the impact of COVID-19 on the financial conditions and results of operations of IPA in future periods.

******

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019 (IN THOUSANDS)

ASSETS	2020	2019
UTILITY PLANT:		
Electric plant in service	$ 3,124,696	$ 3,091,197
Less accumulated depreciation	(2,405,444)	(2,296,955)
Net	719,252	794,242
RESTRICTED ASSETS:		
Cash and cash equivalents	4,934	11
Investments	42,090	47,628
Interest receivable	-	37
Total	47,024	47,676
OTHER NON-CURRENT ASSETS	2,022	1,312
Total non-current assets	768,298	843,230
CURRENT ASSETS:		
Cash and cash equivalents	67,639	2,500
Investments	111,413	171,876
Interest receivable	294	617
Receivable from participants	1,161	2,364
Fuel inventories	59,845	31,598
Materials and supplies	21,831	20,306
Other	6,317	5,355
Total current assets	268,500	234,616
Total assets	1,036,798	1,077,846
DEFERRED OUTFLOWS OF RESOURCES:		
Unamortized refunding charge	18,788	34,498
Unamortized asset retirement costs	139,059	30,364
Other	1,868	1,254
Total deferred outflows of resources	159,715	66,116
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,196,513	$ 1,143,962

See notes to financial statements.

(Continued)

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019 (IN THOUSANDS)

LIABILITIES	2020	2019
LONG-TERM PORTION OF BONDS PAYABLE - Net	$ 86,579	$ 112,097
LONG-TERM PORTION OF SUBORDINATED NOTES PAYABLE - Net	152,170	310,269
LONG-TERM DRAWDOWN BONDS	22,500	-
ADVANCES FROM SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY	10,930	10,930
OTHER NON-CURRENT LIABILITIES:		
Personnel services contract and other obligations	68,038	52,356
Asset retirement obligations	259,243	124,107
Total	327,281	176,463
CURRENT LIABILITIES:		
Commercial paper notes	35,200	66,900
Current maturities of bonds payable	22,400	24,110
Current maturities of subordinated notes payable	162,503	165,323
Interest payable	2,838	4,804
Accrued credit to participants	36,136	5,431
Accounts payable and accrued liabilities	39,879	51,593
Total current liabilities	298,956	318,161
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 1, 7, 11, and 13)	-	-
Total liabilities	898,416	927,920
DEFERRED INFLOWS OF RESOURCES:		
Net costs billed to participants not yet expensed	296,402	214,839
Other	1,695	1,203
Total deferred inflows of resources	298,097	216,042
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$ 1,196,513	$ 1,143,962

See notes to financial statements.

(Concluded)

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019 (IN THOUSANDS)

	2020	2019
OPERATING REVENUES:		
Power sales to participants	$ 591,285	$ 612,457
Less credit to participants	(36,278)	(5,573)
Net revenues	555,007	606,884
OPERATING EXPENSES:		
Fuel	158,934	193,000
Operation	88,198	119,093
Maintenance	52,013	63,436
Depreciation and amortization	136,032	127,760
Taxes and payment in lieu of taxes	18,396	19,290
Total expenses	453,573	522,579
OPERATING INCOME	101,434	84,305
NON-OPERATING INCOME	1,113	2,323
INTEREST CHARGES:		
Interest on bonds, subordinated notes, and other debt	6,691	25,865
Financing expenses (principally amortization of bond discount and refunding charge on defeasance of debt)	18,316	21,349
Earnings on investments	(4,023)	(5,200)
Net interest charges	20,984	42,014
NET COSTS BILLED TO PARTICIPANTS NOT YET EXPENSED	81,563	44,614
CHANGE IN NET POSITION	$ -	$ -

See notes to financial statements.

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019 (IN THOUSANDS)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from power billings to participants	$ 586,915	$ 582,985
Other cash receipts	1,113	2,323
Cash paid to suppliers	(347,683)	(271,962)
Net cash provided by operating activities	240,345	313,346
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Repayments on line of credit	-	(45,000)
Net cash used in noncapital financing activities	-	(45,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	22,500	-
Debt issuance costs	(566)	-
Principal paid on long-term debt	(189,433)	(202,419)
Principal paid on commercial paper	(31,700)	(28,600)
Interest paid on long-term debt and commercial paper	(8,790)	(25,660)
Additions to electric plant in service	(32,678)	(50,407)
Net cash used in capital and related financing activities	(240,667)	(307,086)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(8,279,934)	(10,870,020)
Proceeds from sales/maturities of investments	8,346,993	10,905,007
Interest earnings received on investments	3,325	3,742
Net cash provided by investing activities	70,384	38,729
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	70,062	(11)
CASH AND CASH EQUIVALENTS:		
Beginning balance	2,511	2,522
Ending balance	$ 72,573	$ 2,511

See notes to financial statements.

(Continued)

INTERMOUNTAIN POWER AGENCY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019 (IN THOUSANDS)

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 101,434	$ 84,305
Other non-operating income	1,113	2,323
Depreciation and amortization	136,032	127,760
Financing expenses, net of amortization of bond discount and refunding charge on defeasance of debt	(621)	(1,328)
Changes in operating assets and liabilities:		
Receivable from participants	1,203	(960)
Fuel inventories	(28,247)	63,120
Materials and supplies	(1,525)	1,371
Other current assets	(962)	10,820
Personnel services contract and other obligations	15,682	25,639
Accounts payable and accrued liabilities	(13,637)	22,773
Accrued credit to participants	30,705	(22,939)
Other assets	(710)	115
Deferred outflows of resources - other	(614)	(87)
Deferred inflows of resources - other	492	434
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 240,345	$ 313,346

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Accounts payable and accrued liabilities included $2,705 and $781 at June 30, 2020 and 2019, 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, along with construction of certain capital improvements of the Project are managed for IPA by the Department of Water and Power of the City of Los Angeles (LADWP) in its capacity as Operating Agent and Project Manager, respectively, pursuant to agreements. LADWP has also contracted to purchase a portion of the electric energy generated from the Project (see Note 11). 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 11), 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 9), 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, 2020 and 2019, 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, 2020 and 2019.

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, 2020 and 2019 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 $23,472,000 and $18,492,000 greater than the stated last-in, first-out value at June 30, 2020 and 2019, 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 11), 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, 2020 and 2019, 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. 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 11). 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, 2020, 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 Note 10 for additional information on IPA's asset retirement obligations.

Recently Adopted Accounting Pronouncements – 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. This statement is effective for reporting periods beginning after December 15, 2020. IPA adopted this statement prospectively, effective July 1, 2019. IPA has recorded all interest associated with the 2019 Drawdown Bonds with the Royal Bank of Canada (see Note 8) as interest expense during the year ended June 30, 2020.

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, 2019. IPA is currently evaluating the effect 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 June 15, 2021. IPA is currently evaluating the effects the adoption of this statement will have on the financial statements.

Reclassification – Certain prior year amounts related to land and land use rights in the utility plant activity table in Note 2, *Utility Plant*, for the year ended June 30, 2019 were reclassified to conform to the current period presentation.

2. UTILITY PLANT

Utility plant activity for the years ended June 30, 2020 and 2019, is as follows (in thousands):

	July 1, 2019	Increases	Decreases	June 30, 2020
Utility plant not being depreciated -				
Construction work-in-progress	$ 14,591	$ 24,655	$ -	$ 39,246
Land and land rights	113,823	-	-	113,823
Total	128,414	24,655	-	153,069
Utility plant being depreciated/amortized:				
Production	2,824,710	2,283	(349)	2,826,644
Transmission	825,836	7,091	(687)	832,240
Payments-in-aid of construction - transmission	(739,937)	-	-	(739,937)
General	52,173	573	(67)	52,679
Total	2,962,782	9,947	(1,103)	2,971,626
Accumulated depreciation	(2,785,890)	(142,101)	1,103	(2,926,888)
Accumulated amortization of payments-in-aid of construction	488,936	32,510	-	521,446
Total accumulated depreciation	(2,296,954)	(109,591)	1,103	(2,405,442)
Utility plant - net	$ 794,242	$ (74,989)	$ -	$ 719,253

	July 1, 2018	Increases	Decreases	June 30, 2019
Utility plant not being depreciated -				
Construction work-in-progress	$ 6,368	$ 8,223	$ -	$ 14,591
Land and land rights	113,823	-	-	113,823
Total	120,191	8,223	-	128,414
Utility plant being depreciated/amortized:				
Production	2,820,697	5,132	(1,119)	2,824,710
Transmission	798,192	33,926	(6,282)	825,836
Payments-in-aid of construction - transmission	(739,937)	-	-	(739,937)
General	49,612	2,633	(72)	52,173
Total	2,928,564	41,691	(7,473)	2,962,782
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

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments consist of the following at June 30, 2020 and 2019 (in thousands):

	2020		2019	
	Fair Value	Weighted Average Remaining Maturity	Fair Value	Weighted Average Remaining Maturity
Cash and cash equivalents:				
Restricted:				
Money market funds	$ 739	1 day or less	$ -	1 day or less
Cash	4,195	1 day or less	11	1 day or less
Total restricted	4,934		11	
Current:				
Money market funds	65,246	1 day or less	-	1 day or less
Cash	2,393	1 day or less	2,500	1 day or less
Total current	67,639		2,500	
Total cash and cash equivalents	$ 72,573		$ 2,511	
Investments:				
Restricted:				
U.S. Treasuries	$ 2,615	0.04 years	$ -	
U.S. Agencies	4,497	0.48 years	7,677	0.87 years
Commercial paper	20,896	1 day or less	27,319	1 day or less
Corporate bonds	14,082	1.27 years	12,632	1.49 years
Total restricted	42,090		47,628	
Current:				
U.S. Agencies	20,184	2.25 years	85,334	0.59 years
Corporate bonds	91,229	1.37 years	86,542	1.49 years
Total current	111,413		171,876	
Total investments	$ 153,503		$ 219,504	

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, 2020, approximately $6,588,000 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, 2020 and 2019, IPA's fair value measurements and their levels within the fair value hierarchy were as follows (in thousands):

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments by fair value level:				
U.S. Treasuries	$ -	$ 2,615	$ -	$ 2,615
U.S. Agencies	-	24,681	-	24,681
Commercial paper	-	20,896	-	20,896
Corporate bonds	-	105,311	-	105,311
Total investments by fair value level	$ -	$ 153,503	$ -	$ 153,503

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments by fair value level:				
U.S. Treasuries	$ -	$ -	$ -	$ -
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

4. NET COSTS BILLED TO PARTICIPANTS NOT YET EXPENSED

Net costs billed to participants not yet expensed for the years ended June 30, 2020 and 2019, and the accumulated totals as of June 30, 2020 and 2019, consisted of the following (in thousands):

	For the Years Ended June 30, 2020	For the Years Ended June 30, 2019	Accumulated Totals as of June 30, 2020	Accumulated Totals as of June 30, 2019
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	(136,032)	(127,760)	(2,703,820)	(2,567,788)
Amortization of bond discount and refunding on defeasance of bonds	(17,129)	(20,021)	(1,352,654)	(1,335,525)
Accretion of interest on zero coupon bonds	-	-	(349,408)	(349,408)
Charge on retired debt	-	-	(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	443	227	63	(380)
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	(478)	(263)	(9,128)	(8,650)
Change in liabilities	(15,682)	(25,639)	(80,184)	(64,502)
Renewal project costs	(17,927)	(6,279)	(28,049)	(10,122)
Other	13,716	(11,887)	(18,876)	(32,592)
Amounts billed to participants under the bond resolution and the power sales contracts:				
Bond and subordinated note principal	222,245	186,995	4,678,861	4,456,616
Deferred fuel costs	-	-	32,228	32,228
Capital improvements	32,337	48,897	579,400	547,063
Reduction of required fund deposits	70	344	3,960	3,890
Cash received from sale of assets	-	-	(18,904)	(18,904)
Participant funds expended for debt reduction, refinancing and/or other financing costs (Note 11)	-	-	310,380	310,380
Net costs billed to participants not yet expensed	$ 81,563	$ 44,614	$ 296,402	$ 214,839

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, 2020 and 2019. As of June 30, 2020 and 2019, for Subordinated Bonds (collectively, the "Bonds") the principal amount consisted of the following (in thousands):

Series	Bonds Dated	Final Maturity on July 1	2020	2019
Subordinated Bonds				
2014 A	6/23/2014	2019	$ -	$ 24,110
2018 A	4/4/2018	2023	105,230	105,230
Total Bonds payable			105,230	129,340
Unamortized bond premium			3,749	6,867
Current maturities of Bonds payable			(22,400)	(24,110)
Long-term portion of bonds payable - net			$ 86,579	$ 112,097

Interest rates on the Bonds payable outstanding range from 2.75% to 5.00% at June 30, 2020 and June 30, 2019, respectively.

The changes in the par value of Bonds payable for the years ended June 30, 2020 and 2019, are as follows (in thousands):

	2020	2019
Beginning balance	$ 129,340	$ 203,860
Deductions:		
Principal maturities	(24,110)	(74,520)
Ending balance	$ 105,230	$ 129,340

The principal amounts of future maturities, sinking fund requirements and interest to be paid for the Bonds outstanding as of June 30, 2020, are as follows (in thousands):

	Principal	Interest
Years ending June 30:		
2021	$ 22,400	$ 4,686
2022	44,030	3,041
2023	34,185	1,085
2024	4,615	115
Total	$ 105,230	$ 8,927

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, 2020 and 2019, is as follows (in thousands):

	2020	2019
Restricted assets:		
Subordinated Indebtedness Fund:		
Debt Service Account	$ 39,251	$ 40,104
Debt Service Reserve Account	2,345	2,951
Construction Fund:		
Tax Exempt Account	740	-
Taxable Account	29	-
Self-Insurance Fund	4,659	4,621
Total restricted assets	47,024	47,676
Revenue Fund (Note 11)	179,346	174,993
Total	$ 226,370	$ 222,669

The reconciliation of the current assets as reported in the accompanying statements of net position to the Revenue Fund at June 30, 2020 and 2019, is as follows (in thousands):

	2020	2019
Current assets reported in statements of net position:		
Cash and cash equivalents	$ 67,639	$ 2,500
Investments	111,413	171,876
Interest receivable	294	617
Revenue Fund	$ 179,346	$ 174,993

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, 2020 and 2019.

Defeasance of Debt – No bonds were defeased during the years ended June 30, 2020 and 2019. The aggregate outstanding principal of Bonds extinguished through prior period bond defeasance was $24,250,000 at June 30, 2020.

6. SUBORDINATED NOTES PAYABLE

IPA and the California Purchasers (see Note 11) 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, 2020 and 2019, the principal amount of interest bearing subordinated notes payable consisted of the following (in thousands):

Note Holder	Issue Date	Final Maturity on July 1	2020	2019
LADWP	2/10/2000	2021	$ 35,650	$ 98,964
LADWP	3/2/2000	2023	221,067	314,647
LADWP	5/2/2000	2021	48,300	48,354
LADWP	7/20/2005	2019	-	2,361
City of Pasadena	1/29/2009	2023	14,630	20,644
Total subordinated notes payable			319,647	484,970
Unamortized discount			(4,974)	(9,378)
Current maturities of subordinated notes payable			(162,503)	(165,323)
Long-term portion of subordinated notes payable			$ 152,170	$ 310,269

The changes in the par value of subordinated notes payable for the years ended June 30, 2020 and 2019, are as follows (in thousands):

	2020	2019
Beginning balance	$ 484,970	$ 612,869
Deductions - principal maturities	(165,323)	(127,899)
Ending balance	$ 319,647	$ 484,970

The principal amounts of future maturities and interest to be paid (received) on subordinated notes payable as of June 30, 2020, are as follows (in thousands):

	Principal	Interest
Years ending June 30:		
2021	$ 162,503	$ (12,662)
2022	74,971	(14,067)
2023	75,791	(4,978)
2024	6,382	(53)
Total	$ 319,647	$ (31,760)

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, 2020 of $35,200,000 bear interest between 0.18% and 1.35% with remaining maturities ranging between 1 and 78 days. The commercial paper notes outstanding at June 30, 2019 of $66,900,000 bore interest between 1.45% and 1.80% with remaining maturities ranging between 3 and 80 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, 2020 and 2019, there were no borrowings under these agreements.

8. TRANSITION PROJECT INDEBTEDNESS

On November 25, 2019, IPA and the Purchasers approved a Plan of Finance for funding renewal project activities that anticipates using shorter-term bridge financing in early project stages followed by long-term financing as required to fund anticipated costs to complete construction. On December 27, 2019, IPA amended its subordinated indebtedness resolution to allow IPA to issue subordinated indebtedness not to exceed $100,000,000 for the purpose of providing a portion of the monies necessary to pay the Cost of Acquisition and Construction of the Gas Repowering (as defined in the Power Sales Contracts). These subordinated bonds are designated by the title “Subordinated Power Supply Revenue Bonds, 2019 Drawdown Series” (the “Drawdown Bonds”) and deemed to constitute Transition Project Indebtedness as defined by the Power Sales Contracts. The Drawdown Bonds were issued by Royal Bank of Canada (RBC) on December 30, 2019, in two subseries, designated as Tax-Exempt and Taxable. The Drawdown Bonds issued and outstanding at June 30, 2020 were $20,350,000 and $2,150,000 in the Tax-Exempt and Taxable subseries, respectively. The Drawdown Bonds bore interest between 0.50% and 5.59% during the year ended June 30, 2020. The Drawdown Bonds are to be terminated and repaid on or before December 29, 2022. Should any principal of Drawdown Bonds not be repaid on or before December 29, 2022, the principal will be redeemed through installment payments during an amortization period that ends on December 29, 2027. No payments of principal were made during the year ended June 30, 2020. IPA has established separate cash and investment accounts for each of the subseries of the Drawdown Bonds.

9. 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. Management believes that advances from SCPPA in the accompanying financial statements meet those required under and are co-terminus with the STS Agreement.

10. 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.

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, which created a contractual requirement to retire certain capital assets under the Renewal Contracts. This resulted in an additional $96,424,000 for the retirement and dismantling of existing generating station assets and $37,166,000 of the retirement and dismantling of existing converter station assets, which were recorded as asset retirement obligations during the year ended June 30, 2020.

As of June 30, 2020, and 2019, the current value of IPA's asset retirement obligations totaled approximately $259,243,000 and $124,107,000, 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 $135,136,000 during the year ended June 30, 2020, is due to the $96,424,000 identified in the Retirement Plan, the $37,166,000 estimated for the converter stations and $1,546,000 due to the effects of general inflation.

11. 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 $36,278,000 and $5,575,000 for the years ended June 30, 2020 and 2019, 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 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 $59,223,000 and $58,650,000 as of June 30, 2020 and 2019, respectively.

12. RELATED PARTY TRANSACTIONS

LADWP, as Operating Agent, performed engineering and other services for the Project totaling approximately $32,994,000 and $41,499,000 for the years ended June 30, 2020 and 2019, respectively, which has been billed to IPA and charged to operations or utility plant, as appropriate. Operating Agent unbilled costs totaling approximately $3,815,000 and $6,943,000 are included in accounts payable at June 30, 2020 and 2019, respectively.

Power sales to LADWP for the years ended June 30, 2020 and 2019, totaled approximately $385,955,000 and $401,422,000, respectively. The receivable from LADWP at June 30, 2020 and 2019, was approximately $530,000 and $1,069,000, respectively. Power sales to the City of Anaheim for the years ended June 30, 2020 and 2019, totaled approximately $81,370,000 and $85,391,000, respectively. The receivable from the City of Anaheim at June 30, 2020 and 2019, was approximately $151,000 and $458,000, respectively. No other individual purchasers are over 10% of generation entitlement.

Subordinated notes payable have been issued to LADWP (see Note 6). Interest expense on these subordinated notes payable of approximately $1,030,000 and $17,379,000 has been recorded for the years ended June 30, 2020 and 2019, respectively, of which approximately $201,000 and $1,389,000 was payable at June 30, 2020 and 2019, respectively.

Subordinated notes payable have been issued to the City of Pasadena (see Note 6). Interest expense on these subordinated notes payable of approximately ($196,000) and $723,000 has been recorded for the years ended June 30, 2020 and 2019, respectively, of which approximately ($13,000) and $71,000 was (receivable) payable at June 30, 2020 and 2019, respectively.

13. COMMITMENTS AND CONTINGENCIES

Coal Supply – At June 30, 2020, 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:	
2021	$ 170,118
2022	173,846
2023	177,673
2024	181,600
2025	91,808
Thereafter	-
	$ 795,045

The actual cost of coal purchases under the coal supply contracts for the years ended June 30, 2020 and 2019, was approximately $181,867,000 and $123,708,000, 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 $101,439 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. In view of the government letting the tolling agreement lapse and given the lack of further engagement by the government and Sierra Club for over three years, it appears unlikely that any claims related to this matter will be asserted; however, it is not possible to predict with certainty 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 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.

COVID-19 – In March 2020, COVID-19 was officially declared a pandemic and has been having significant effects in most markets and economies. IPA has not experienced any significant impact to its financial position and results of operations to date. However, the future impact of COVID-19 on IPA's financial position and results of operations will depend on may factors, including: (i) the duration and spread of the outbreak, (ii) the restrictions and recommendations of health organizations and governments, (iii) the effects on the financial markets, and (iv) the effects in general on the economy. It is not possible to reasonably estimate the length and severity of these developments and the impact of COVID-19 on the financial conditions and results of operations of IPA in future periods.

******

INTERMOUNTAIN POWER AGENCY

SUPPLEMENTAL SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE IPA REVENUE BOND RESOLUTION FOR THE YEARS ENDED JUNE 30, 2019 AND 2020 (IN THOUSANDS)

		Restricted Assets			
		Subordinated+J78 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 on long-term debt and commercial paper	-	25,660	-	-	25,660
Principal paid on long-term debt	-	202,419	-	-	202,419
Payments on line of credit	45,000	-	-	-	45,000
Principal paid on commercial paper	-	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

(Continued)

INTERMOUNTAIN POWER AGENCY

SUPPLEMENTAL SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE IPA REVENUE BOND RESOLUTION FOR THE YEARS ENDED JUNE 30, 2019 AND 2020 (IN THOUSANDS)

		Restricted Assets					
		Subordinated Indebtedness Fund		Construction Fund			
	Revenue Fund	Debt Service Account	Debt Service Reserve Account	Tax Exempt Construction Account	Taxable Construction Account	Self-Insurance	Total
BALANCE, JULY 1, 2019	$ 174,993	$ 40,104	$ 2,951	$ -	$ -	$ 4,621	$ 222,669
ADDITIONS:							
Proceeds from issuance of Bonds	-	-	-	20,350	2,150	-	22,500
Power billings received	586,915	-	-	-	-	-	586,915
Other revenues	1,113	-	-	-	-	-	1,113
Investment earnings	4,074	(112)	10	10	2	39	4,023
Total	592,102	(112)	10	20,360	2,152	39	614,551
DEDUCTIONS:							
Operating expenditures	347,683	-	-	-	-	-	347,683
Capital expenditures	22,153	-	-	10,525	-	-	32,678
Interest paid on long-term debt and commercial paper	-	8,657	-	87	46	-	8,790
Principal paid on long-term debt	-	189,433	-	-	-	-	189,433
Principal paid on commercial paper	-	31,700	-	-	-	-	31,700
Debt issuance costs	360	-	-	204	2	-	566
Total	370,196	229,790	-	10,816	48	-	610,850
TRANSFERS:							
Transfer of revenues to other Funds	(229,009)	229,049	(43)	4	-	(1)	-
Other transfers	11,456	-	(573)	(8,808)	(2,075)	-	-
Total	(217,553)	229,049	(616)	(8,804)	(2,075)	(1)	-
BALANCE, JUNE 30, 2020	$ 179,346	$ 39,251	$ 2,345	$ 740	$ 29	$ 4,659	$ 226,370

(Concluded)