

# **WPPI Energy**

## FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2018 and 2017



## WPPI Energy

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December 31, 2018 and 2017

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
WPPI Energy  
Sun Prairie, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying financial statements of WPPI Energy as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise WPPI Energy's basic financial statements as listed in the table of contents.

#### ***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.

#### ***Auditors' 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 audits 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 auditors' 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 over financial reporting relevant to WPPI Energy'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 WPPI Energy'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 WPPI Energy as of December 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matters**

As discussed in Note 1, WPPI Energy adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. The cumulative effect of the change is shown in the current year. 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 required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
February 27, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis of WPPI Energy's condensed financial statements provides an overview of WPPI Energy's activities for the years ended December 31, 2018 and 2017. The information presented should be read in conjunction with WPPI Energy's financial statements and the accompanying notes.

WPPI Energy follows authoritative sources of U. S. generally accepted accounting principles (GAAP) under the provisions of Governmental Accounting Standards Board (GASB) 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. WPPI Energy complies with all applicable GASB pronouncements, including the application of GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62).

WPPI Energy's financial statements include the following: The Statements of Net Position provides information about the nature and amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources of WPPI Energy as of the end of the year. The Statements of Revenues, Expenses, and Changes in Net Position reports and classifies revenues, expenses and outflows and inflows of resources for the year. The Statements of Cash Flows reports and classifies cash receipts, cash payments and net changes in cash for the year. The notes to the financial statements provide additional information.

### **Significant Events**

WPPI Energy had several significant events occur in 2018 and 2017. The following is a description of these events and their impact on WPPI Energy's financial statements and the accompanying notes.

#### **2018**

##### ***Bond Issuance***

On April 18, 2018, WPPI Energy closed on the issuance of \$41.340 million (par value) in fixed rate bonds, the Power Supply System Revenue Bonds, Series 2018 A (2018 A bonds). WPPI Energy used the proceeds from the 2018 A bonds along with \$0.9 million of other available funds, to refund a portion of the outstanding Power Supply System Revenue Bonds, Series 2008 A (2008 A bonds), maturing on July 1, 2021 through July 1, 2037 with a total par value of \$47.3 million. The current refunding resulted in present value savings of \$6.5 million.

On July 1, 2018, WPPI Energy called the remaining 2008 A bonds, maturing on July 1, 2019 and July 1, 2020 with a total par value of \$15.2 million. WPPI Energy used available funds on hand to make the early principal payments on these remaining 2008 A bonds, which decreased unrestricted and restricted cash and investments.

##### ***Purchased Power and Transmission***

On December 22, 2017 the Tax Cuts and Jobs Act (2017 Tax Reform) was signed into law creating changes in the U.S. tax code, most notably the reduction of federal statutory income tax rate from 35 percent to 21 percent for corporations. While WPPI Energy does not pay federal income taxes, 2017 Tax Reform resulted in lower purchased power costs under certain contracts and lower transmission costs based on the application of formula rates under which WPPI Energy is charged.

Effective June 1, 2018, WPPI Energy began purchasing all of the output from the Bishop Hill III Wind Energy Center under a purchase power agreement with Bishop Hill Energy III LLC dated July 13, 2017. Bishop Hill III Wind Energy Center commenced operation in May 2018 and has an installed capacity of 132 MW, although the maximum output will not exceed 119 MW due to transmission interconnection rights limitations. The initial term runs through May 31, 2040.

##### ***Badger-Coulee Project Energized***

All major construction activities were completed in 2018 on the Badger-Coulee project which was energized on December 13, 2018. WPPI Energy has a 1.5% ownership interest in the Badger-Coulee project. WPPI Energy's share of total project costs, including allowance for funds used during construction, was \$6.8 million.



### ***Refunds***

WPPI Energy applied \$3.3 million of refunds received but not recognized in 2017 to recoverable costs to members in 2018, as planned. This amount had been reported as a regulatory liability under deferred inflows of resources at the end of 2017 and its application in 2018 lowered purchased power costs to members and decreased WPPI Energy's unrestricted cash and investments.

In 2018, WPPI Energy received an additional refund, including interest, of \$3.2 million related to certain system support resource charges previously paid in MISO. WPPI Energy used the refund dollars to offset purchased power costs to members in 2018 in the amount of \$1.7 million and recorded \$1.5 million as a regulatory liability under deferred inflows of resources as of the end of 2018. This amount will be returned to members in 2019.

Also in 2018, WPPI Energy received a refund from ATC related to a Federal Energy Regulatory Commission (FERC) audit related to ATC's treatment of construction work in progress in its formula rate for certain projects. WPPI Energy received \$2.5 million and recorded a regulatory liability as of the end of 2018. This amount will be returned to members in 2019.

## **2017**

### ***Refunds***

In 2017, WPPI Energy recognized refunds, including interest, of i) \$5.0 million associated with a FERC complaint related to lower base return on equity of certain transmission owning members of MISO, including ATC and ii) \$0.8 million related to allocation of voltage and local reliability costs in MISO. WPPI Energy used these refund dollars to offset transmission costs to members in 2017. In 2017, WPPI Energy also received refunds, including interest, of \$3.3 million associated with certain system support resource charges previously paid in MISO. This refund was reported as a regulatory liability under deferred inflows of resources at the end of 2017. Consequently, this refund did not impact WPPI Energy's change in net position in 2017; however, it did increase WPPI Energy's unrestricted cash and investments.

### ***Seasonal Demand Rates***

WPPI Energy implemented seasonal wholesale rates, effective January 1, 2017, that have higher demand charges during the summer months compared to the rest of the year. The seasonal wholesale rates are designed to recover additional revenue from members during the summer period when additional capacity costs are imposed on the system. While WPPI Energy's peaking capacity needs are driven by the system's summer peak demand, the costs associated with that capacity is generally paid throughout the year. Therefore, the seasonal wholesale rates create a mismatch between booked expenses and revenues on a monthly basis. The seasonal wholesale rates performed as intended during 2017 and the overall adoption of the seasonal rate design did not have a material impact on year-end financial results compared to 2016, as expected.

### ***Menasha Lease Repayment***

In 2017, the Public Service Commission of Wisconsin authorized the City of Menasha's (Menasha) repurchase of the electric utility distribution assets previously sold to WPPI Energy prior to the end of the capital lease. On March 1, 2017, the transaction closed and WPPI Energy received a final payment of \$11.1 million (Menasha lease repayment) (see Note 11). The lease, effective April 6, 2011, had an original term of 20 years. At the end of 2016, WPPI Energy held a receivable for both the lease principal and interest to be received, along with a deferred inflow of resources for the unearned interest portion of the lease. In 2017, these amounts were extinguished in full with the application of the final payment received by WPPI Energy and did not impact its change in net position; however, it did increase WPPI Energy's unrestricted cash and investments. At the end of 2016, WPPI Energy also held a deferred outflow of resources for the acquisition premium which was being amortized over the 20 year life of the lease. The outstanding acquisition premium of \$1.38 million was expensed in 2017.

### ***Power Supply Portfolio Changes***

Two major purchase power agreements completed their respective terms in 2017. WPPI Energy purchased i) 125 MW under a formula rate tariff with Wisconsin Power & Light that ended on June 1, 2017 and ii) 85 MW from Kendall County Generating Facility Unit 3 that ended on September 17, 2017. Effective June 1, 2017, WPPI began purchasing approximately 90 MW from the Nelson Energy Center that has an initial term that runs through May 31, 2037 (see Note 1(t)). Changes in its power supply portfolio impacted WPPI Energy's participation and the amount of purchases and sales in organized wholesale electric markets in 2017.

### **Condensed Statements of Net Position**

*(in millions)*

|  | 2018         | 2017         | 2016         | 2018-<br>2017<br>Change | 2017-<br>2016<br>Change |
|--|--------------|--------------|--------------|-------------------------|-------------------------|
| Assets   |              |              |              |                         |                         |
| Current assets                                   | \$ 146.8     | \$ 168.0     | \$ 162.2     | \$ (21.2)               | \$ 5.8                  |
| Non-current assets                               | 251.6        | 239.7        | 245.2        | 11.9                    | (5.5)                   |
| Capital assets, net                              | <u>387.0</u> | <u>397.9</u> | <u>402.4</u> | <u>(10.9)</u>           | <u>(4.5)</u>            |
| Total assets                                     | 785.4        | 805.6        | 809.8        | (20.2)                  | (4.2)                   |
| Deferred Outflows of Resources                   | 19.8         | 20.7         | 23.9         | (0.9)                   | (3.2)                   |
| Liabilities                                      |              |              |              |                         |                         |
| Current liabilities                              | 56.0         | 64.0         | 68.5         | (8.0)                   | (4.5)                   |
| Non-current liabilities                          | 8.1          | 7.9          | 7.6          | 0.2                     | 0.3                     |
| Long-term debt, including<br>unamortized premium | <u>366.4</u> | <u>405.8</u> | <u>434.4</u> | <u>(39.4)</u>           | <u>(28.6)</u>           |
| Total liabilities                                | 430.5        | 477.7        | 510.5        | (47.2)                  | (32.8)                  |
| Deferred Inflows of Resources                    | 83.0         | 69.6         | 64.9         | 13.4                    | 4.7                     |
| Net Position                                     | 291.7        | 279.0        | 258.3        | 12.7                    | 20.7                    |

### **Assets & Deferred Outflows of Resources**

Total assets at the end of 2018 were \$785.4 million, which was a decrease of \$20.2 million from 2017. Total assets at the end of 2017 were \$805.6 million, which was a decrease of \$4.2 million from 2016.

Current assets decreased \$21.2 million in 2018 and increased \$5.8 million in 2017. The decrease in current assets in 2018 was due primarily to using available funds on hand to make the early principal payments on the remaining 2008 A bonds and reclassification to non-current assets for certain monies moved to the renewal and replacement fund. The increase in current assets in 2017 was due primarily to higher unrestricted cash and investments as a result of the Menasha lease repayment and refunds received in 2017. The change in current assets in 2018 and 2017 were also impacted by lower restricted cash and investments from continued construction fund spend and lower receivables.

Non-current assets increased \$11.9 million in 2018 and decreased \$5.5 million in 2017. The increase in non-current assets in 2018 was due primarily to increases in investment in ATC and reserve funds along with the initial recognition of WPPI Energy's proportionate share of the net pension asset of the Wisconsin Retirement System (WRS) (see Note 9(b)). The decrease in non-current assets in 2017 was due primarily to reductions in non-current receivables associated with the Menasha lease repayment and regulatory assets, partially offset by increases in investment in ATC and reserve funds.

The balance in the renewal and replacement fund of \$26.8 million at the end of 2018 was comprised of approximately \$17.5 million for future capital improvements and \$9.3 million for future long-term maintenance. In comparison, the balance in the renewal and replacement fund of \$20.8 million at the end of 2017 was comprised of approximately \$13.1 million for future capital improvements and \$7.7 million for future long-term maintenance. Contributions, net of usage, was \$6.0 million in 2018 and \$3.8 million in 2017. The usage in 2018 and 2017 was primarily for capital additions at Boswell Unit 4 and Elm Road Generating Station (ERGS) Units 1 and 2. In addition, usage in 2017 also included capital repairs at Island Street Peaking Plant.

Non-current assets include WPPI Energy's investment in ATC, which increased \$8.3 million in 2018, which included capital contributions of \$5.3 million to meet voluntary capital calls. In 2017, investment in ATC increased \$9.0 million which included capital contributions to ATC of \$6.7 million to meet voluntary capital calls.

Regulatory assets decreased \$1.0 million in 2018 and \$4.1 million in 2017. The decrease in regulatory assets in 2017 was due primarily to ongoing reductions in future recoverable costs which ultimately resulted in the reclassification of future recoverable costs from a regulatory asset to a regulatory liability in 2017.

Capital assets net of accumulated depreciation decreased \$10.9 million in 2018 and \$4.5 million in 2017 as a result of annual depreciation exceeding capital additions. Construction work in progress decreased in 2018 due primarily to the completion of the Badger-Coulee project. Construction work in progress increased in 2017 primarily from ongoing construction of the Badger-Coulee project and various capital projects at Boswell Unit 4.

Deferred outflows of resources decreased \$0.9 million in 2018 as a result of lower unamortized loss on reacquired debt as a result of the issuance of the 2018 A bonds and early principal payments made on the remaining 2008 A bonds, net of ongoing amortization. This was primarily offset by pension-related amounts associated with the WRS that, through amortization, will be recognized in pension expense in future years. Deferred outflows of resources decreased \$3.2 million in 2017 due primarily to ongoing amortization of loss on reacquired debt and expensing the acquisition premium associated with the Menasha lease repayment.

### **Liabilities & Deferred Inflows of Resources**

Current liabilities decreased \$8.0 million in 2018 and \$4.5 million in 2017 due primarily to lower current maturities of long-term debt and lower accounts payable from purchased power.

Long-term debt including unamortized premium decreased \$39.4 million in 2018 and \$28.6 million in 2017 due primarily to the reclassification of certain long-term debt to current maturities, refunding of certain 2008 A bonds and early principal payments made on the remaining 2008 A bonds.

Deferred inflows of resources increased \$13.4 million in 2018 and \$4.7 million in 2017. The increase in deferred inflows of resources in 2018 was due primarily to pension-related amounts associated with the WRS that, through amortization, will be recognized in pension expense in future years and increases in regulatory liabilities. Regulatory liabilities increased in 2018 as a result of principal amounts recovered in rates exceeding the related depreciation and amortization recognized (see Note 1(h)) and certain refunds to be returned to members in 2019. The increase in deferred inflows of resources in 2017 was due primarily to the reclassification of future recoverable costs and refunds WPPI Energy received in 2017 to be applied to recoverable future costs. This was partially offset by a reduction in unearned interest related to the Menasha lease repayment.

### **Net Position**

Net position was \$291.7 million at the end of 2018 and \$279.0 million at the end of 2017. Net position at the end of 2018 was \$12.7 million more than at the end of 2017. The change in net position was higher in 2017 compared to 2018 and 2016 due primarily to the refunds recognized in 2017 and designated for purposes of other than reducing costs to members. The change in net position results primarily from margin collected through

WPPI Energy's wholesale rates to its members and WPPI Energy's share of ATC earnings that are retained by ATC. WPPI Energy's wholesale rates were designed to collect a margin to result in 1.25 times debt service in 2018, 1.25 times debt service in 2017 and 1.29 times debt service in 2016.

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**  
(in millions)

|  | 2018            | 2017            | 2016            | 2018-<br>2017<br>Change | 2017-<br>2016<br>Change |
|--|-----------------|-----------------|-----------------|-------------------------|-------------------------|
| Operating revenues                                     | \$ 451.5        | \$ 471.3        | \$ 476.6        | \$ (19.8)               | \$ (5.3)                |
| Operating expenses                                     | 431.9           | 433.6           | 453.5           | (1.7)                   | (19.9)                  |
| Operating income                                       | 19.6            | 37.7            | 23.1            | (18.1)                  | 14.6                    |
| Non-operating revenues (expenses), net                 | (1.2)           | (6.2)           | (2.0)           | 5.0                     | (4.2)                   |
| Future recoverable costs                               | (6.0)           | (10.8)          | (5.7)           | 4.8                     | (5.1)                   |
| Change in net position                                 | 12.4            | 20.7            | 15.4            | (8.3)                   | 5.3                     |
| Net position, beginning of year                        | 279.0           | 258.3           | 242.9           | 20.7                    | 15.4                    |
| Cumulative effect of change<br>in accounting principle | 0.3             | -               | -               | 0.3                     | -                       |
| Net position, end of year                              | <u>\$ 291.7</u> | <u>\$ 279.0</u> | <u>\$ 258.3</u> | <u>\$ 12.7</u>          | <u>\$ 20.7</u>          |

**Operating Revenues**

Total operating revenues in 2018 were \$451.5 million, which was a decrease of \$19.8 million from 2017. Total operating revenues in 2017 were \$471.3 million, which was a decrease of \$5.3 million from 2016. Lower total operating revenues in 2018 and 2017 compared 2016 were due primarily to lower revenue from energy sales to members, partially offset by higher revenue from off system sales. Off system sales were also impacted by the availability and dispatch of owned generating units in the MISO and PJM markets, including the overall level of power supply injections by WPPI Energy relative to withdrawals for its load.

Revenue from energy sales to members decreased \$23.0 million in 2018 due primarily to lower average power cost (wholesale rates) charged to members as a result of lower energy costs overall, including the impact of 2017 Tax Reform. Revenue from energy sales to members decreased \$5.0 million in 2017 due primarily to lower MWh sold to members.

**Energy Sales to Members (MWh)**

|                         | 2018      | 2017      | 2016      | %<br>Change<br>2018-<br>2017 | %<br>Change<br>2017-<br>2016 |
|-------------------------|-----------|-----------|-----------|------------------------------|------------------------------|
| Energy sales to members | 5,084,754 | 5,002,230 | 5,126,325 | 1.6%                         | -2.4%                        |

Energy sales to members in 2018 and 2017 compared to 2016 was impacted by curtailed operations at one industrial customer which represented approximately 4.2% of energy sales to members in 2016 and overall variations in weather.

Revenue from sales to others increased \$2.5 million in 2018 and decreased \$1.9 million in 2017 as a result of higher and lower off system sales, respectively. Revenue from sales to others includes revenue associated with WPPI Energy's in-service owned transmission which was \$2.6 million in 2018 and \$2.4 million in 2017.

### Operating Expenses

Operating expenses were \$431.9 million in 2018, which was a decrease of \$1.7 million from 2017. Operating expenses were \$433.6 million in 2017, which was a decrease of \$19.9 million from 2016. The decrease in operating expenses in 2018 compared to 2017 was due primarily to the lower purchased power, partially offset by higher transmission, fuel expense and depreciation and amortization. The decrease in operating expenses in 2017 compared to 2016 was due primarily to lower purchased power and depreciation and amortization.

Purchased power decreased by \$14.1 million in 2018 due primarily to lower energy costs overall, including lower nominations and costs under formula rate tariffs that were also impacted by 2017 Tax Reform. Purchased power decreased by \$11.5 million in 2017 due primarily to recognizing certain refunds of purchased power costs previously paid by WPPI Energy and lower nominations and costs under formula rate tariffs. In addition, the changes in WPPI Energy's power supply portfolio in 2018 and 2017 provided lower purchased power costs.

Transmission increased by \$5.4 million in 2018 and decreased by \$5.9 million in 2017. The change in transmission in 2018 and 2017 was due primarily to recognizing certain refunds of transmission costs in 2017 previously paid by WPPI Energy.

Fuel expense increased \$1.9 million in 2018 and decreased \$0.3 million in 2017 due primarily to the corresponding change in total production at WPPI Energy's owned generating units.

### Owned Generation Production by Unit (MWh)

|                    | 2018             | 2017             | 2016             | %<br>Change<br>2018-<br>2017 | %<br>Change<br>2017-<br>2016 |
|--------------------|------------------|------------------|------------------|------------------------------|------------------------------|
| Boswell Unit 4     | 833,135          | 792,658          | 854,435          | 5.1%                         | -7.2%                        |
| ERGS Unit 1        | 337,253          | 338,752          | 325,544          | -0.4%                        | 4.1%                         |
| ERGS Unit 2        | 371,208          | 320,022          | 329,792          | 16.0%                        | -3.0%                        |
| ISPP               | 12,378           | 5,736            | 10,052           | 115.8%                       | -42.9%                       |
| SFDL Units 1 and 4 | 31,576           | 10,488           | 10,532           | 201.1%                       | -0.4%                        |
| Total              | <u>1,585,550</u> | <u>1,467,656</u> | <u>1,530,355</u> | <u>8.0%</u>                  | <u>-4.1%</u>                 |

The production at Boswell Unit 4 was lower in 2017 compared to 2018 and 2016 due primarily to additional outage hours and changes in fuel strategy.

ERGS Units 1 and 2 have burned blends of sub-bituminous coal ranging from 0%-100%. The production at ERGS Units 1 and 2 has continued to increase due primarily to expanded use of sub-bituminous coal mined from the western United States which resulted in lower fuel costs and more favorable dispatch economics.

The production at Island Street Peaking Plant (ISPP) was lower in 2017 compared to 2018 and 2016 due primarily to a 12 week outage in the spring of 2017 to repair two turbine engines. The production at ISPP and South Fond du Lac (SFDL) Units 1 and 4 has varied the last several years due to changes in generation dispatch patterns in the MISO market footprint.

## **Non-Operating Revenues (Expenses), Net**

Net non-operating expenses decreased \$5.0 million in 2018 and increased \$4.2 million in 2017. The decrease in 2018 was due primarily to higher investment income and lower interest expense. This was partially offset by a decrease in equity earnings in ATC and expensing the outstanding loss on reacquired debt associated with 2008 A bonds that were called in July, 2018. The increase in 2017 was due primarily to i) lower allowance for funds used during construction, ii) lower gains on sales of allowances as a result of terminating agreements and iii) expensing the outstanding acquisition premium associated with the Menasha lease repayment. This was partially offset by increases in investment income and equity earnings in ATC and lower interest expense.

Equity in earnings of ATC decreased \$0.7 million in 2018 and increased \$0.5 million in 2017. Earnings retained by ATC ultimately increase WPPI Energy's net position. In 2018, WPPI Energy received a higher percentage of ATC earnings as cash dividends as a result of 2017 Tax Reform. ATC earnings distributed as cash dividends are recorded under investment income and used to lower WPPI Energy's rates to members.

Interest expense decreased \$1.8 million in 2018 and \$0.9 million in 2017 as a result of i) scheduled annual payments of principal, ii) refunding existing debt through the issuance of the 2018 A bonds and 2016 A bonds and iii) early principal payments on the remaining 2008 A bonds.

## **Future Recoverable Costs**

Future recoverable costs equaled \$(6.0) million in 2018, a change of \$4.8 million from 2017. Future recoverable costs equaled \$(10.8) million in 2017, a change of \$(5.1) million from 2016. As allowed through the application of GASB 62, future recoverable costs represent the difference between depreciation and amortization expenses for assets that are financed with bond proceeds and the related principal collected from rates in the present period.

## **Contact Information**

This financial report is designed to provide a general overview of WPPI Energy's finances. Questions or requests for additional information should be addressed to:

WPPI Energy  
Attn: CFO  
1425 Corporate Center Drive  
Sun Prairie, Wisconsin 53590

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**WPPI Energy**  
**Statements of Net Position**  
**December 31, 2018 and 2017**

|   | 2018               | 2017               |
|---|--------------------|--------------------|
| <b>Assets</b>                             |                    |                    |
| <b>Current assets</b>                     |                    |                    |
| Unrestricted cash and investments         | \$ 79,927,637      | \$ 89,803,191      |
| Restricted cash and investments           | 21,553,939         | 29,510,700         |
| Receivables                               | 30,858,462         | 34,715,313         |
| Inventories                               | 11,635,329         | 11,609,110         |
| Prepayments and other assets              | 2,851,526          | 2,350,747          |
| Total current assets                      | 146,826,893        | 167,989,061        |
| <b>Non-current assets</b>                 |                    |                    |
| Unrestricted cash and investments         | 83,365,451         | 76,599,946         |
| Restricted cash and investments           | 27,667,472         | 31,599,739         |
| Investment in ATC                         | 131,526,560        | 123,257,114        |
| Receivables from members                  | 3,457,798          | 3,475,024          |
| Regulatory assets                         | 2,527,630          | 3,513,878          |
| Prepayments and other assets              | 1,068,780          | 1,291,139          |
| Net pension asset                         | 2,003,465          | -                  |
| Total non-current assets                  | 251,617,156        | 239,736,840        |
| <b>Capital assets</b>                     |                    |                    |
| Electric plant and equipment              | 579,369,337        | 576,549,487        |
| Accumulated depreciation and amortization | (196,758,266)      | (186,348,739)      |
| Electric plant and equipment, net         | 382,611,071        | 390,200,748        |
| Land                                      | 1,317,182          | 704,180            |
| Construction work in progress             | 3,033,425          | 6,958,688          |
| Total capital assets                      | 386,961,678        | 397,863,616        |
| <b>Total assets</b>                       | <b>785,405,727</b> | <b>805,589,517</b> |
| <b>Deferred Outflows of Resources</b>     |                    |                    |
| Unamortized loss on reacquired debt       | 16,089,592         | 20,004,317         |
| Other postemployment benefits             | 111,904            | -                  |
| Pension                                   | 3,610,835          | 662,101            |
| Other                                     | -                  | 30,818             |
| Total deferred outflows of resources      | 19,812,331         | 20,697,236         |



**WPPI Energy**  
**Statements of Net Position (cont'd)**  
**December 31, 2018 and 2017**

|   | 2018               | 2017               |
|---|--------------------|--------------------|
| <b>Liabilities</b>                              |                    |                    |
| <b>Current liabilities</b>                      |                    |                    |
| Accounts payable and accrued liabilities        | \$ 29,339,064      | \$ 29,981,998      |
| Restricted current maturities of long-term debt | 18,150,000         | 24,365,000         |
| Restricted accrued interest                     | 8,460,972          | 9,628,784          |
| Total current liabilities                       | 55,950,036         | 63,975,782         |
| <b>Non-current liabilities</b>                  |                    |                    |
| Asset retirement obligations                    | 5,669,593          | 5,468,784          |
| Benefits liabilities                            | 2,444,366          | 2,448,859          |
| Total non-current liabilities                   | 8,113,959          | 7,917,643          |
| <b>Long-term debt</b>                           |                    |                    |
| Revenue bonds, net of unamortized premium       | 366,431,567        | 405,775,727        |
| <b>Total liabilities</b>                        | <b>430,495,562</b> | <b>477,669,152</b> |
| <b>Deferred Inflows of Resources</b>            |                    |                    |
| Self-insurance reserve                          | 4,951,913          | 4,878,488          |
| Long-term maintenance reserve                   | 9,346,092          | 7,691,962          |
| Rate stabilization                              | 46,159,143         | 46,159,143         |
| Self-funded group health coverage reserve       | -                  | 111,349            |
| Pension   | 4,970,674          | -                  |
| Regulatory liabilities                          | 17,643,633         | 10,787,138         |
| <b>Total deferred inflows of resources</b>      | <b>83,071,455</b>  | <b>69,628,080</b>  |
| <b>Net Position</b>                             |                    |                    |
| Net investment in capital assets                | 19,051,485         | (7,122,770)        |
| Restricted                                      |                    |                    |
| Debt service                                    | 9,075,000          | 12,182,500         |
| Debt service reserve                            | 27,666,460         | 31,598,735         |
| Other   | 1,012              | 1,004              |
| Unrestricted                                    | 235,857,084        | 242,330,052        |
| <b>Total net position</b>                       | <b>291,651,041</b> | <b>278,989,521</b> |

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**WPPI Energy**  
**Statements of Revenue, Expenses, and Changes in Net Position**  
**For the Years Ended December 31, 2018 and 2017**

|  | 2018           | 2017           |
|--|----------------|----------------|
| <b>Operating revenues</b>                            |                |                |
| Sales to members                                     | \$ 362,770,819 | \$ 385,789,494 |
| Sales to others                                      | 87,327,375     | 84,793,721     |
| Rate stabilization                                   | -              | (671,108)      |
| Other income   | 1,440,976      | 1,389,950      |
| Total operating revenues                             | 451,539,170    | 471,302,057    |
| <b>Operating expenses</b>                            |                |                |
| Purchased power                                      | 274,186,539    | 288,272,821    |
| Transmission   | 65,144,292     | 59,792,489     |
| Fuel expense   | 34,475,780     | 32,579,027     |
| Operation and maintenance                            | 15,915,102     | 15,139,968     |
| Customer service and administrative and general      | 18,841,194     | 17,152,516     |
| Depreciation and amortization                        | 16,491,956     | 13,600,437     |
| Taxes  | 6,948,775      | 7,020,078      |
| Total operating expenses                             | 432,003,638    | 433,557,336    |
| <b>Operating income</b>                              | 19,535,532     | 37,744,721     |
| <b>Non-operating revenues (expenses)</b>             |                |                |
| Investment income                                    | 11,564,607     | 9,786,622      |
| Equity in earnings of ATC                            | 2,988,297      | 3,645,319      |
| Allowance for funds used during construction         | 383,483        | 172,334        |
| Net increase (decrease) in fair value of investments | 28,405         | (510,335)      |
| Gain on sale of allowances                           | 1,005,393      | 675,000        |
| Interest expense                                     | (18,027,405)   | (19,810,051)   |
| Amortization of debt-related costs                   | 1,041,054      | 1,433,786      |
| Other  | (143,657)      | (1,590,294)    |
| Total non-operating revenues (expenses), net         | (1,159,823)    | (6,197,619)    |
| Future recoverable costs                             | (5,966,835)    | (10,855,653)   |
| <b>Change in net position</b>                        | 12,408,874     | 20,691,449     |
| Net position, beginning of year                      | 278,989,521    | 258,298,072    |
| Cumulative effect of change in accounting principle  | 252,646        | -              |
| Net position, end of year                            | \$ 291,651,041 | \$ 278,989,521 |

**WPPI Energy**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

|  | 2018           | 2017           |
|--|----------------|----------------|
| <b>Cash flows provided by operating activities</b>                       |                |                |
| Cash receipts from members and others                                    | \$ 456,508,754 | \$ 475,465,401 |
| Cash payments for purchased power  | (338,523,524)  | (350,015,643)  |
| Cash payments for fuel   | (33,816,272)   | (31,969,543)   |
| Cash payments for operations and maintenance                             | (12,285,873)   | (13,252,651)   |
| Cash payments for payroll and ad valorem taxes                           | (6,949,117)    | (7,020,298)    |
| Cash payments to employees   | (10,069,805)   | (9,812,848)    |
| Cash payments for customer service & adm. and general                    | (11,701,615)   | (10,876,144)   |
| Net cash provided by operating activities                                | 43,162,548     | 52,518,274     |
| <b>Cash flows provided by (used in) non-capital financing activities</b> |                |                |
| Cash receipts from outside parties                                       | 1,063,611      | 12,010,464     |
| Cash payments to outside parties   | (1,153,499)    | (950,219)      |
| Net cash provided by (used in) non-capital financing activities          | (89,888)       | 11,060,245     |
| <b>Cash flows provided by (used in) investing activities</b>             |                |                |
| Investments purchased  | (71,592,594)   | (101,013,322)  |
| Investment in ATC  | (5,349,357)    | (6,686,696)    |
| Investments sold   | 77,934,474     | 89,570,000     |
| Investment income  | 3,821,255      | 2,690,523      |
| Cash distributions received from ATC                                     | 8,224,186      | 8,569,729      |
| Net cash provided by (used in) investing activities                      | 13,037,964     | (6,869,766)    |
| <b>Cash flows used in capital and related financing activities</b>       |                |                |
| Acquisition and construction of capital assets                           | (5,539,874)    | (8,260,717)    |
| Bonds issued   | 41,340,000     | -              |
| Principal paid   | (39,560,000)   | (23,440,000)   |
| Refunded principal   | (47,300,000)   | -              |
| Debt issuance costs and escrow payment                                   | 5,784,930      | (15,875)       |
| Interest paid  | (19,195,218)   | (20,357,301)   |
| Net cash used in capital and related financing activities                | (64,470,162)   | (52,073,893)   |
| <b>Change in cash and cash equivalents</b>                               | (8,359,538)    | 4,634,860      |
| Cash and cash equivalents, beginning of year                             | 112,839,513    | 108,204,653    |
| Cash and cash equivalents, end of year                                   | \$ 104,479,975 | \$ 112,839,513 |

**WPPI Energy**  
**Statements of Cash Flows (cont'd)**  
**Years Ended December 31, 2018 and 2017**

|  | 2018           | 2017           |
|--|----------------|----------------|
| <b>Reconciliation of operating income to net cash provided by operating activities</b> |                |                |
| Operating income   | \$ 19,535,531  | \$ 37,744,721  |
| Depreciation and amortization  | 16,491,956     | 13,600,437     |
| Other non-operating revenues (expenses), net   | 1,190,965      | 582,251        |
| Changes in assets, liabilities, deferred outflows and inflows of resources             |                |                |
| Receivables  | 3,964,190      | 2,817,236      |
| Inventories  | (26,219)       | 815,495        |
| Prepayments and other assets   | (500,778)      | (821,660)      |
| Regulatory asset   | 304,659        | 304,660        |
| Non-current prepayments and other assets   | 222,359        | 235,882        |
| Pension  | (88,520)       | (640,569)      |
| Current accounts payable and accrued liabilities                                       | (172,823)      | (5,444,650)    |
| Non-current accounts payable   | -              | (17,000)       |
| Benefits liabilities   | (4,493)        | 181,580        |
| Long-term maintenance reserve  | 1,654,131      | (956,154)      |
| Rate stabilization   | -              | 671,108        |
| Self-funded group health coverage reserve  | (111,349)      | 79,777         |
| Regulatory liabilities   | 702,939        | 3,365,160      |
| Net cash provided by operating activities  | \$ 43,162,548  | \$ 52,518,274  |
| <b>Reconciliation of cash and cash equivalents to the Statements of Net Position</b>   |                |                |
| <b>Current assets</b>  |                |                |
| Unrestricted cash and investments  | \$ 79,927,637  | \$ 89,803,191  |
| Restricted cash and investments  | 21,553,939     | 29,510,700     |
| <b>Non-current assets</b>  |                |                |
| Unrestricted cash and investments  | 83,365,451     | 76,599,946     |
| Restricted cash and investments  | 27,667,472     | 31,599,739     |
| Total cash and investments   | 212,514,499    | 227,513,576    |
| Less: long-term investments  | 108,034,524    | 114,674,063    |
| Total cash and cash equivalents  | \$ 104,479,975 | \$ 112,839,513 |

**WPPI Energy**  
**Statements of Cash Flows (cont'd)**  
**Years Ended December 31, 2018 and 2017**

**Noncash investing, capital and related-financing activities**

During 2018 and 2017, WPPI Energy recognized \$2,988,297 and \$3,645,319 of equity earnings in ATC.

During 2018, WPPI Energy recognized an increase in fair market value of investments of \$28,405.

During 2017, WPPI Energy recognized a decrease in fair market value of investments of \$510,335.

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## **NOTES TO THE FINANCIAL STATEMENTS**



## **(1) Summary of Significant Accounting Policies**

### **(a) Organization and Operations**

WPPI Energy is a municipal electric company and political subdivision of the State of Wisconsin, formed in 1980. It is WPPI Energy's mission to provide member utilities with reliable, low-cost electricity, best-in-class services and effective advocacy, making its member communities better places to live, work and play. WPPI Energy sells wholesale power to its 41 Wisconsin municipal members and 9 non-Wisconsin municipal members. WPPI Energy also sells wholesale electricity under a long-term contract to a Michigan electric cooperative association. Including the Michigan electric cooperative association, WPPI Energy served 51 customer-owned electric utilities (the "members") as of December 31, 2018 and 2017, respectively.

WPPI Energy sells wholesale electricity to its members under long-term contracts. As of December 31, 2018, 49 members, representing approximately 98% of WPPI Energy's existing load, have long-term contracts through December 31, 2055. The remaining two members have long-term contracts through December 31, 2037. Under the long-term contracts, WPPI Energy has agreed to sell and deliver to each member, and each member has agreed to take and pay for all of its electric power requirements, with certain exceptions related to existing member-owned hydroelectric facilities and other specified generation. WPPI Energy supplies the electric power requirements of its members from a mix of resources, including owned generation and purchased power from other entities including the Midcontinent Independent System Operator, Inc. (MISO) and PJM Interconnection, LLC (PJM) markets and as described in Note 1(r), Note 1(t) and Note 13, respectively. WPPI Energy also receives operating revenues from sales of capacity and energy to other entities including sales in the MISO and PJM markets.

WPPI Energy offers various member support services and customer programs, including, but not limited to: joint purchasing of electric materials, electric rate studies and financial modeling, customer and energy services, program marketing, retail metering and billing, customer information system and technology, governmental relations and advocacy, communications, education, and community outreach.

### **(b) Basis of Accounting**

WPPI Energy follows authoritative sources of U.S. generally accepted accounting principles (GAAP) under the provisions of Governmental Accounting Standards Board (GASB) 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. WPPI Energy complies with all applicable GASB pronouncements, including the application of GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62).

Under GASB 62, WPPI Energy defers revenues and expenses for future recognition as they are recovered or returned through the rate-making process. Where applicable, the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts is used.

### **(c) Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows and inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and outflows and inflows of resources during the reporting period. Actual results could differ from those estimates.

**(d) Capital Assets**

Additions to and replacements of capital assets are recorded at original cost, including allowance for borrowed funds. Assets with an initial cost greater than \$5,000 and a useful life of two years or more are capitalized. Depreciation is recorded using the straight-line method using service lives of 2 to 45 years.

**(e) Cash and Investments**

Cash and investments of WPPI Energy's funds are governed by (i) Section 66.0825 of the Wisconsin Statutes, which states that notwithstanding the provision of any other law, WPPI Energy may invest any funds held in reserve or sinking funds, or any funds not required for immediate disbursement in obligations, securities and other investments that it deems proper, and (ii) WPPI Energy's bond resolution, which provides that such investments shall mature not later than such times as necessary to provide moneys when needed for payments from such funds.

**(f) Restricted Cash and Investments**

WPPI Energy's bond resolution requires the segregation of bond proceeds and prescribes the application of WPPI Energy's revenues. Amounts classified as restricted cash and investments on the Statements of Net Position represent cash and investments whose use is restricted by the bond resolution. It is WPPI Energy's practice to use restricted funds on hand for their designated purpose, when available, before using unrestricted funds for such purpose.

**(g) Unamortized Bond Issuance Costs**

Under GASB 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), bond issuance costs are to be expensed in the period incurred. However, WPPI Energy borrows for and systematically spreads the costs associated with issuing bonds over the life of the related bond issue for rate-making purposes. A regulatory asset is established under GASB 62 to recognize unamortized bond issuance costs (see Note 1(j)). Bond issuance costs are amortized over the repayment period of the related bond issues using a method that approximates the effective-interest method.

**(h) Future Recoverable Costs**

Revenues from members include amounts to pay bond principal and interest. For financial reporting purposes, WPPI Energy recognizes depreciation and amortization pertaining to fixed assets and other assets financed with bond principal. As allowed through the application of the provisions of GASB 62, future recoverable costs represent the difference between depreciation and amortization of assets financed with bond proceeds and the related principal recovered in rates in the present period. When the depreciation and amortization recognized exceeds the related principal amounts recovered in rates, these costs will be recovered in future periods. When the principal amounts recovered in rates exceed the related depreciation and amortization recognized, these costs will be returned in future periods.

**(i) Derivative Instruments**

WPPI Energy follows GASB 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) to recognize, measure and disclose information regarding its derivative instruments. WPPI Energy may enter into derivative instruments to stabilize power costs to its members, consisting primarily of natural gas and electricity financial contracts. An offsetting regulatory asset or liability is recorded under GASB 62 for derivative instruments, which results in no change in net position (see Note 10).

(j) **Regulatory Assets**

Regulatory assets are for i) the CapX 2020 La Crosse project's pre-commercial and transmission-related expenses being amortized over a five-year period that commenced in 2015 and recovered over a five-year period that commenced in 2016, ii) costs associated with a settlement agreement recognized in 2013 that was recovered over a five-year period for rate-making purposes and iii) unamortized bond issuance costs to be recovered over the repayment period of the related bond issues. Regulatory asset balances were as follows at December 31:

|                                 | 2018                | 2017                |
|---------------------------------|---------------------|---------------------|
| CapX 2020 La Crosse project     | \$ 294,222          | \$ 588,444          |
| Settlement costs                | -                   | 10,438              |
| Unamortized bond issuance costs | 2,233,408           | 2,914,996           |
|                                 | <u>\$ 2,527,630</u> | <u>\$ 3,513,878</u> |

(k) **Deferred Outflows and Inflows of Resources**

WPPI Energy follows GASB 65 which reclassify as deferred outflows of resources or deferred inflows of resources or recognize outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities (see Note 1(z)).

(l) **Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, cash and cash equivalents are cash and investments maturing in three months or less.

(m) **Inventories**

Inventories include fuel and repair spare parts and are charged to plant or operation and maintenance expense at average cost when used. Inventories are valued at the lower of average cost or fair value.

(n) **Prepayments and Other Assets**

Prepayments and other assets include unamortized costs of expenses paid in advance for which the future benefits have yet to be realized. WPPI Energy recognizes an expense or asset when such benefit is realized. Prepayments and other assets are for i) a member generation contract entered into in 2016, ii) other prepaid general operating costs, such as insurance and iii) upfront payments for community-based renewable energy purchased from members and their customers.

Prepayment and other asset balances were as follows at December 31:

|                               | 2018                | 2017                |
|-------------------------------|---------------------|---------------------|
| Capacity contract             | \$ 1,154,371        | \$ 1,333,773        |
| Other general operating costs | 2,629,166           | 2,114,864           |
| Solar purchases               | 136,769             | 193,249             |
|                               | <u>\$ 3,920,306</u> | <u>\$ 3,641,886</u> |

For purposes of the Statements of Net Position, prepayments and other assets anticipated to be realized within one year are classified as current assets. Classification of prepayments and other assets was as follows on December 31:

|             | 2018                | 2017                |
|-------------|---------------------|---------------------|
| Current     | \$ 2,851,526        | \$ 2,350,747        |
| Non-current | 1,068,780           | 1,291,139           |
|             | <u>\$ 3,920,306</u> | <u>\$ 3,641,886</u> |

**(o) Current Receivables**

Current receivables include sales accounts receivable, representing power sales to members and non-members for the period between the last billing date and the end of the reporting period, and are accrued in the period sold. Current receivable balances were as follows at December 31:

|                       | 2018                 | 2017                 |
|-----------------------|----------------------|----------------------|
| Sales, members        | \$ 24,716,151        | \$ 29,455,295        |
| Sales, non-members    | 4,526,478            | 3,738,160            |
| Notes, members        | 996,575              | 875,779              |
| Unrestricted interest | 570,009              | 588,994              |
| Restricted interest   | 49,249               | 57,085               |
|                       | <u>\$ 30,858,462</u> | <u>\$ 34,715,313</u> |

**(p) Non-Current Receivables**

The non-current receivables balance includes amounts not due within the next year associated with member energy efficiency and renewable energy project loans.

**(q) Rates to Members**

Rates to members are reviewed and adopted by WPPI Energy's Board of Directors annually. Under WPPI Energy's bond resolution, WPPI Energy's rates for wholesale power sales to members are set at levels expected to yield net revenues for an annual period equal to at least 1.10 times the aggregate debt service for that period. These rates are not subject to state or federal regulation. For the years ended December 31, 2018 and 2017, WPPI Energy's Board of Directors approved rates that were expected to yield net revenues 1.25 times aggregate debt service, respectively.

WPPI Energy's Board of Directors may annually determine whether revenues that provide margin above 1.10 times debt service coverage shall be deferred and deposited to the Rate Stabilization Fund. As allowed through the application of the provisions of GASB 62, the margin may be deposited in the Rate Stabilization Fund and reported as a deferred inflow of resources on the

accompanying Statements of Net Position to be distributed in future years to cover costs that otherwise would be recovered through rates to members and reported as operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position. For the years ended December 31, 2018 and 2017, WPPI Energy did not utilize the Rate Stabilization Fund and deferred revenues of \$0 and \$671,107, respectively.

(r) ***Owned Generation***

WPPI Energy had owned generation of approximately 432 MW at December 31, 2018 and 2017, respectively, from Boswell Unit 4, Elm Road Generating Station Units 1 and 2, South Fond du Lac Units 1 and 4, the Island Street Peaking Plant and other small generation. Generally, WPPI Energy's share of the assets and the cost to operate and maintain its owned generation is included in the accompanying financial statements.

***Boswell Unit 4.*** WPPI Energy has a 20% undivided interest (approximately 117 MW) in the 585 MW Boswell Unit 4, a coal-fired steam unit near Grand Rapids, Minnesota. Minnesota Power owns the remaining interest in Boswell Unit 4 and is the operating agent responsible for operation and maintenance of the unit.

***Elm Road Generating Station Units 1 and 2.*** WPPI Energy has an 8.33% undivided interest (approximately 53 MW in each unit) in the Elm Road Generating Station (ERGS) Units 1 and 2, two 634 MW supercritical coal-fired steam units near Oak Creek, Wisconsin. WEC Energy Group and MGE Energy, both through wholly owned subsidiaries, own the remaining 83.34% and 8.33% of ERGS Units 1 and 2, respectively. Wisconsin Electric Power Company (WEPCO) is the operating agent responsible for operation and maintenance of the units.

***South Fond du Lac Units 1 and 4.*** WPPI Energy owns two 77 MW combustion turbine units near Fond du Lac, Wisconsin. South Fond du Lac (SFDL) Units 1 and 4 are two of four combustion turbine units located on a site owned by Wisconsin Power & Light (WPL). WPL owns the other two units on the site and operates and maintains the units owned by WPPI Energy.

***Island Street Peaking Plant.*** WPPI Energy owns a 52 MW combustion turbine unit in Kaukauna, Wisconsin. Kaukauna Utilities operates and maintains the unit.

(s) ***Owned Transmission***

WPPI Energy's transmission ownership consists of the CapX 2020 La Crosse project and the Badger-Coulee project. Generally, WPPI Energy's share of the assets and cost to operate and maintain these transmission projects, along with associated transmission service revenue, is included in the accompanying financial statements (see Note 13). In addition, WPPI Energy owns an equity interest in ATC Management Inc. and American Transmission Company LLC (collectively ATC) (see Note 3 and Note 13). WPPI Energy takes service for all of its transmission requirements under contracts and tariffs approved by FERC.

***CapX 2020 La Crosse project.*** WPPI Energy has a 3% interest in the total CapX 2020 La Crosse project. However, WPPI Energy's physical ownership of transmission consists only of facilities physically located in Wisconsin and amounts to approximately 9.5% of such facilities. The CapX 2020 La Crosse project is an approximate 125 mile 345 kV transmission line from Red Wing, Minnesota to the La Crosse, Wisconsin area. Five other utilities own the remaining interest in the CapX 2020 La Crosse project, including Xcel Energy, the operating agent responsible for operation and maintenance of the project. Most segments of the CapX 2020 La Crosse project, including the Wisconsin portion, were placed in service in 2015. The remaining segments of the CapX 2020 La Crosse project were placed in service in 2016. Electric plant and equipment, net balances for the CapX 2020 La Crosse project were as follows at December 31:

|   | <u>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
| Electric plant and equipment              | \$ 15,175,832        | \$ 15,468,660        |
| Accumulated depreciation and amortization | <u>(1,363,395)</u>   | <u>(1,003,613)</u>   |
| Electric plant and equipment, net         | <u>\$ 13,812,437</u> | <u>\$ 14,465,047</u> |

**Badger-Coulee project.** WPPI Energy has a 1.5% interest in the Badger-Coulee project. The Badger-Coulee project is a 345 kV transmission line that begins north of La Crosse where it interconnects with the CapX 2020 La Crosse project and runs approximately 180 miles to northern Dane County, also in Wisconsin. Four other utilities own the remaining interest in the Badger-Coulee project, including ATC and Xcel Energy, the operating agents responsible for operation and maintenance of the project. The Badger-Coulee project was placed in service in 2018. Electric plant and equipment, net balances for the Badger-Coulee project were as follows at December 31:

|   | <u>2018</u>         | <u>2017</u> |
|---|---------------------|-------------|
| Electric plant and equipment              | \$ 6,811,128        | \$ -        |
| Accumulated depreciation and amortization | <u>(77,477)</u>     | <u>-</u>    |
| Electric plant and equipment, net         | <u>\$ 6,733,651</u> | <u>\$ -</u> |

(t) **Purchased Power**

WPPI Energy had major purchase power agreements, as further described below, of approximately 613 MW and 493 MW at December 31, 2018 and 2017, respectively. Purchase power agreements ended with WPL and Dynegy Marketing and Trade LLC in 2017. Purchase power agreements commenced with Bishop Hill Energy III LLC (Bishop Hill) and Invenergy Nelson LLC (Invenergy) in 2018 and 2017, respectively.

**WEPCO Market Based Rate Tariff Agreements.** WPPI Energy makes two separate purchases from WEPCO under its market rate tariff, FERC electric tariff volume no. 8 dated October 11, 2012. WPPI Energy pays formula-based average embedded cost rates under the first purchase with an initial term that runs through April 30, 2025. WPPI Energy purchased 0 MW for the contract years commencing June 1, 2016, 2017 and 2018, respectively. WPPI Energy has nominated to purchase 0 MW for the contract years commencing June 1, 2019, 2020 and 2021, respectively. WPPI Energy may change its nomination from year to year, subject to contractual restrictions, but may not exceed 305 MW. WPPI Energy is permitted but not obligated to schedule energy up to the nominated demand.

WPPI Energy is obligated to purchase 50 MW under a second purchase through May 31, 2021. WPPI Energy may increase its nomination from year to year, subject to contractual restrictions, but may not exceed 100 MW. WPPI Energy has nominated to purchase 50 MW for the contract years commencing June 1, 2019 and 2020. WPPI Energy is permitted but not obligated to schedule energy up to the nominated demand.

**WPS Long-Term Power Sale and Purchase Agreement.** WPPI Energy purchases firm partial requirements service from WPS under a long-term power sale and purchase agreement dated May 1, 2006. WPPI Energy purchases 150 MW and pays formula-based average embedded cost rates. The initial term for the 100 MW portion runs through May 31, 2021 with the 50 MW portion having an initial term running through May 31, 2029.

**Point Beach Nuclear Plant.** WPPI Energy purchases approximately 167 MW (117 MW net of sales below) of unit contingent capacity and energy from the Point Beach Nuclear Plant near Two Rivers, Wisconsin under a purchase power agreement with NextEra dated May 20, 2011. The aggregate generating capacity of the Point Beach Nuclear Plant is approximately 1,185 MW. The term extends through the term of the current Nuclear Regulatory Commission operating license for each unit, which is October 5, 2030 for Unit 1 and March 8, 2033 for Unit 2.

WPPI Energy sells 20% of its share of unit contingent capacity and energy for the life of WPPI Energy's purchase power agreement with NextEra under a purchase power agreement with Missouri River Energy Services dated July 13, 2011.

WPPI Energy sells 10% of its share of unit contingent capacity and energy for the life of WPPI Energy's purchase power agreement with NextEra under a purchase power agreement with Central Minnesota Power Agency and Services dated August 8, 2012.

**Nelson Energy Center.** Effective June 1, 2017, WPPI Energy began purchasing 15.6% (approximately 45 MW in each unit) of unit contingent capacity and energy from Nelson Energy Center Units 1 and 2 (Nelson Energy Center) under a purchase power agreement with Invenergy dated March 12, 2014. Nelson Energy Center is a 575 MW gas-fired combined-cycle plant located near Rock Falls, Illinois. The initial term runs through May 31, 2037.

**Bishop Hill III Wind Energy Center.** Effective June 1, 2018, WPPI Energy began purchasing all of the output from the Bishop Hill III Wind Energy Center under a purchase power agreement with Bishop Hill dated July 13, 2017. Bishop Hill III Wind Energy Center is located in Henry County, Illinois and has an installed capacity of 132 MW, although the maximum output will not exceed 119 MW due to transmission interconnection rights limitations. The initial term runs through May 31, 2040.

**Member Generation under Contract.** Member generation under contract to WPPI Energy consists of a number of small generating units, totaling approximately 37 MW and 36 MW of capacity in 2018 and 2017, respectively.

(u) **Regulatory Liabilities**

Regulatory liabilities are for i) amounts subject to refund in future periods for WPPI Energy's share of the CapX 2020 La Crosse project (see Note 13), ii) refunds received to be returned to members through rates in subsequent years and iii) future recoverable costs to be returned in future periods when depreciation and amortization exceed the related principal amounts. Regulatory liability balances were as follows at December 31:

|                             | 2018                 | 2017                 |
|-----------------------------|----------------------|----------------------|
| CapX 2020 La Crosse project | \$ 41,348            | \$ 29,545            |
| Regulatory credits          | 4,040,110            | 3,348,975            |
| Future recoverable costs    | 13,562,175           | 7,408,618            |
|                             | <u>\$ 17,643,633</u> | <u>\$ 10,787,138</u> |

(v) **Taxes**

WPPI Energy is exempt from Federal, Wisconsin, and Minnesota income taxes as a political subdivision of the State of Wisconsin. Tax expense includes Minnesota property taxes, Wisconsin payments in lieu of ad valorem taxes, payroll-related taxes and emission fees.

**(w) *Vacation and Sick Leave***

Under terms of employment, full time employees are granted one day of sick leave per month. Full time employees are paid annually for any sick leave accrued in excess of 960 hours at one-half their hourly rate. Accrued sick leave is not paid to employees when they leave employment.

Employees are generally allowed to accumulate up to five days of vacation not taken in the year in which it is earned, and are paid annually for any accrued vacation in excess of five days. Accrued vacation is not considered material; therefore, no liability is recorded.

**(x) *Operating Revenues and Expenses***

Operating revenues result from exchange transactions associated with the principal activity of WPPI Energy, the sale of electricity and the provision of other services to members. Reported operating revenues are affected by the contributions to or distributions from the Rate Stabilization Fund. Operating expenses are defined as expenses directly related to, or incurred in support of, the provision of electricity and other services to members. All other expenses are classified as non-operating expenses.

**(y) *Fair Value Measurements***

WPPI Energy follows GASB 72, *Fair Value Measurement and Applications* for measuring fair value and reporting assets and liabilities measured at fair value within the fair value hierarchy.

**(z) *Pensions***

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Wisconsin Retirement System and additions to/deductions from its respective fiduciary net position have been determined on the same basis as they are reported by the Wisconsin Retirement System. Benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms.

**(aa) *Recently Adopted Accounting Pronouncements***

Effective January 1, 2017, WPPI Energy adopted GASB 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, GASB 81, *Irrevocable Split-Interest Agreements* and GASB 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68 and No. 73*.

Effective January 1, 2018, WPPI Energy adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (GASB 75), GASB 85, *Omnibus 2017* and GASB 86, *Certain Debt Extinguishment Issues*.

**(bb) *Recently Issued Accounting Pronouncements***

GASB has issued Statement No. 83, *Certain Asset Retirement Obligation*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* and Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. Application of these recently issued accounting pronouncements, when effective, may restate portions of these financial statements.



(cc) *Comparative Data*

Certain amounts presented in the prior year were reclassified to conform to the current year presentation. There was no impact on net position or change in net position as a result of the reclassifications.

**(2) Cash and Investments**

WPPI Energy’s bond resolution requires the segregation of bond proceeds and maintenance of various funds, and prescribes the application of WPPI Energy’s revenues. WPPI Energy has an internal investment policy with guidelines to help ensure safety of principal, liquidity and diversification of its investment portfolio. Investments permitted are defined by the internal investment policy within the limits of WPPI Energy’s bond resolution and Section 66.0825 of the Wisconsin Statutes. Funds principally consist of and/or investments generally include cash and deposits, money market mutual funds, certificates of deposit, guaranteed investment contracts, U.S. treasury securities, U.S. agency securities, commercial paper, corporate bonds, investment in the State of Wisconsin Local Government Investment Pool (LGIP) and investment in ATC. The funds’ purposes and balances were as follows at December 31:

| <b>Fund</b>            | <b>Held by</b> | <b>Purpose</b>   |
|------------------------|----------------|--|
| Construction**         | WPPI Energy    | To provide for the acquisition and construction of the power supply system.  |
| Debt Service**         | Trustee        | To accumulate principal and interest associated with each bond series.   |
| Debt Service Reserve** | Trustee        | To establish a reserve for the payment of principal and interest. The level of reserve is defined in the Supplemental Resolution for each bond issuance.   |
| Revenue                | WPPI Energy    | To accumulate revenues and to provide for the payment of expenses and for disposition of revenues to various funds.  |
| Renewal & Replacement* | WPPI Energy    | To provide a reserve to be applied to the payment of the costs of renewals, replacements and repairs to the power supply system.   |
| Self-Insurance*        | WPPI Energy    | To provide a reserve to be applied to the payment of claims and losses arising from hazards and risks to the extent that the insurance required to be maintained does not cover such claims or losses. |
| Rate Stabilization*    | WPPI Energy    | To accumulate revenues which will be used to reduce rates in a future period.  |
| Decommissioning*       | WPPI Energy    | To accumulate funds to pay for the eventual costs of decommissioning, retirement or disposal of major facilities.  |
| General Reserve        | WPPI Energy    | To be used for any lawful purpose not otherwise prohibited by WPPI Energy's bond resolution.   |

\*Fund balances have been board designated for the purposes above, but could be used for other purposes subject to approval by WPPI Energy's Board of Directors.

\*\*Fund balances are restricted for the purposes above.

|   | 2018                  | 2017                  |
|---|-----------------------|-----------------------|
| <b>Current</b>                                      |                       |                       |
| <b>Unrestricted cash and investments</b>            |                       |                       |
| Petty cash  | \$ 10                 | \$ 10                 |
| Working capital                                     | 79,277,209            | 89,401,290            |
| Post retirement medical fund                        | 650,418               | 401,891               |
| Total unrestricted cash and investments             | <u>79,927,637</u>     | <u>89,803,191</u>     |
| <b>Restricted cash and investments</b>              |                       |                       |
| Construction funds                                  | 4,017,968             | 7,699,415             |
| Debt service funds                                  | 17,535,971            | 21,811,285            |
| Total current restricted cash and investments       | <u>21,553,939</u>     | <u>29,510,700</u>     |
| <b>Total current</b>                                | 101,481,576           | 119,313,891           |
| <b>Non-current</b>                                  |                       |                       |
| <b>Unrestricted cash and investments</b>            |                       |                       |
| Renewal and replacement fund                        | 26,811,059            | 20,836,059            |
| Self-insurance fund                                 | 4,846,274             | 4,767,261             |
| Rate stabilization fund                             | 46,007,869            | 45,089,135            |
| Decommissioning fund                                | 5,350,509             | 5,258,751             |
| Post retirement medical fund                        | 349,000               | 648,000               |
| Alliance stock                                      | 740                   | 740                   |
| Total non-current unrestricted cash and investments | <u>83,365,451</u>     | <u>76,599,946</u>     |
| <b>Restricted cash &amp; investments</b>            |                       |                       |
| Debt service reserve funds                          | 27,666,460            | 31,598,735            |
| Collateral accounts                                 | 1,012                 | 1,004                 |
| Total non-current restricted cash and investments   | <u>27,667,472</u>     | <u>31,599,739</u>     |
| <b>Investment in ATC</b>                            | 131,526,560           | 123,257,114           |
| <b>Total non-current</b>                            | <u>242,559,483</u>    | <u>231,456,799</u>    |
| <b>Total cash and investments</b>                   | <u>\$ 344,041,059</u> | <u>\$ 350,770,690</u> |
| Current & non-current cash and investments          | \$ 212,514,499        | \$ 227,513,576        |
| Investment in ATC                                   | 131,526,560           | 123,257,114           |
| <b>Total cash and investments</b>                   | <u>\$ 344,041,059</u> | <u>\$ 350,770,690</u> |

WPPI Energy's cash and investments are subject to various potential risks, including the following:

- **Custodial credit risk** – The risk that in the event of a failure of the counterparty to an investment transaction (typically a brokerage firm or financial institution), WPPI Energy would not be able to recover the value of the investment or collateral securities.

Cash and investments in each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000.

WPPI Energy held in deposit accounts \$838,001 (\$675,655 in book balances) at December 31, 2018. WPPI Energy also held \$503 and \$510 in collateral accounts with MISO and PJM, respectively, at December 31, 2018. With the exception of WPPI Energy's investment in the LGIP, all cash and investments held as of December 31, 2018 and 2017 were held in custody on behalf of and in WPPI Energy's name.

The FDIC insures the pro rata share of certificates of deposit held by the LGIP up to \$250,000, and the State of Wisconsin appropriation for losses on public deposits protects a depositing municipality up to \$400,000, subject to the total amount available of the State of Wisconsin Public Deposit Guarantee Fund.

The LGIP is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission as an investment company, but operates under the statutory authority in accordance with Chapter 25 of the Wisconsin Statutes. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. WPPI Energy held \$15,413,700 and \$15,126,502 in the LGIP which is included within WPPI Energy's cash and investments as of December 31, 2018 and 2017, respectively.

- **Concentration risk** – Investing 5% or more of WPPI Energy's portfolio in the securities of a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments issued and guaranteed by U.S. agencies, investments in mutual funds, external investment pools and other pooled investments are excluded. There were no investments of 5% or more in a single-issuer security in WPPI's Energy's portfolio at December 31, 2018 and 2017, respectively.

- **Credit risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

WPPI Energy's cash and investments were rated as follows at December 31:

|   | Standard & Poor's | Moody's | 2018                  | 2017                  |
|---|-------------------|---------|-----------------------|-----------------------|
| Money market mutual funds   | AAAm              | Aaa-mf  | \$ 77,177,397         | \$ 84,060,844         |
| U.S. treasury/agency securities   | AA+               | Aaa     | 77,471,005            | 84,338,351            |
| Municipal bonds   | AAA               | Aa1     | 489,189               | 492,688               |
| Municipal bonds   | AA                | Aa3     | -                     | 1,425,499             |
| Municipal bonds   | AA                | NR      | -                     | 1,548,001             |
| Municipal bonds   | AA-               | Aa3     | 1,064,063             | -                     |
| Municipal bonds   | A+                | A1      | -                     | 1,524,477             |
| Municipal bonds   | NR                | Aa1     | 326,830               | -                     |
| Corporate bonds   | AAA               | Aaa     | 187,217               | 1,021,254             |
| Corporate bonds   | AA+               | Aaa     | 640,192               | 642,660               |
| Corporate bonds   | AA+               | Aa1     | -                     | 764,344               |
| Corporate bonds   | AA                | Aa2     | 1,584,860             | 647,729               |
| Corporate bonds   | AA                | A1      | 568,373               | 768,885               |
| Corporate bonds   | AA-               | Aa1     | 901,517               | -                     |
| Corporate bonds   | AA-               | Aa2     | 869,913               | 1,059,576             |
| Corporate bonds   | AA-               | Aa3     | 1,674,211             | 1,674,492             |
| Corporate bonds   | AA-               | A1      | 181,454               | 1,020,925             |
| Corporate bonds   | A+                | Aa2     | 888,880               | -                     |
| Corporate bonds   | A+                | Aa3     | 801,116               | 826,299               |
| Corporate bonds   | A+                | A1      | 2,397,636             | 4,162,168             |
| Corporate bonds   | A+                | A2      | 2,446,974             | 1,528,810             |
| Corporate bonds   | A                 | A1      | 1,931,763             | 549,499               |
| Corporate bonds   | A                 | A2      | 3,000,868             | 2,752,310             |
| Corporate bonds   | A                 | A3      | 873,407               | 622,648               |
| Corporate bonds   | A-                | A1      | 803,075               | 811,968               |
| Corporate bonds   | A-                | A2      | 3,433,437             | 1,623,072             |
| Corporate bonds   | A-                | A3      | 841,091               | 1,706,570             |
| Corporate bonds   | BBB+              | A3      | 1,702,294             | 1,425,605             |
| Corporate bonds   | BBB+              | Baa1    | 389,446               | -                     |
| Bank deposits, certificates of deposit,<br>commercial paper, Alliance stock &<br>LGIP | n/a               | n/a     | 29,868,291            | 30,514,902            |
|   |                   |         | <u>\$ 212,514,499</u> | <u>\$ 227,513,576</u> |

WPPI Energy has entered into forward delivery agreements to provide a fixed rate of return for a portion of its debt service reserve funds. The provider delivers a short-term security that matures prior to WPPI Energy's next bond payment. After the bond payment is made a new security is delivered

under the forward delivery agreements. The securities delivered under the forward delivery agreements are included within WPPI Energy's investments as of December 31, 2018 and 2017. WPPI Energy is exposed to risk of nonperformance if the counterparties default or if the forward delivery agreements are terminated.

Forward delivery agreements held by WPPI Energy were as follows at December 31:

|                       | Interest Rate | Termination Date | 2018                | 2017                |
|-----------------------|---------------|------------------|---------------------|---------------------|
| Bank of America, N.A. | 4.875%        | 7/1/2037         | \$ 4,973,763        | \$ 4,973,763        |
| Bank of America, N.A. | 4.980%        | 7/1/2037         | 3,119,000           | 3,119,000           |
|                       |               |                  | <u>\$ 8,092,763</u> | <u>\$ 8,092,763</u> |

- **Interest rate risk** – The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk).

As of December 31, 2018, WPPI Energy's cash and investments were classified by maturity as follows:

|   | Total                | Maturity in Years    |                      |               |
|---|----------------------|----------------------|----------------------|---------------|
|   |                      | Less than 1          | 1-5                  | Over 5        |
| Money market mutual funds   | \$ 77,177,397        | \$ 77,177,397        | \$ -                 | \$ -          |
| U.S. treasury/agency securities   | 77,471,005           | 21,013,649           | 56,457,356           | -             |
| Municipal bonds   | 1,880,082            | -                    | 1,880,082            | -             |
| Corporate bonds   | 26,117,724           | 2,180,403            | 23,937,321           | -             |
| Bank deposits, certificates of deposit, commercial paper, Alliance stock & LGIP | 29,868,291           | 22,372,949           | 7,494,602            | 740           |
|   | <u>\$212,514,499</u> | <u>\$122,744,398</u> | <u>\$ 89,769,361</u> | <u>\$ 740</u> |

As of December 31, 2017, WPPI Energy's cash and investments were classified by maturity as follows:

|  | Total                | Maturity in Years    |                      |               |
|--|----------------------|----------------------|----------------------|---------------|
|  |                      | Less than 1          | 1-5                  | Over 5        |
| Money market mutual funds  | \$ 84,060,844        | \$ 84,060,844        | \$ -                 | \$ -          |
| U.S. treasury/agency securities  | 84,338,351           | 21,846,079           | 62,492,272           | -             |
| Municipal bonds  | 4,990,665            | 4,497,976            | 492,689              | -             |
| Corporate bonds  | 23,608,814           | 1,004,243            | 22,604,571           | -             |
| Bank deposits, certificates of deposit, commercial paper & Alliance stock & LGIP | 30,514,902           | 23,264,179           | 7,249,983            | 740           |
|  | <u>\$227,513,576</u> | <u>\$134,673,321</u> | <u>\$ 92,839,515</u> | <u>\$ 740</u> |

- **Fair value measurements** – WPPI Energy categorizes its fair value measurements within the fair value hierarchy. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 1 of the fair value hierarchy were valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy were valued using institutional bond quotes and/or evaluations based on various market and industry inputs with the exception of money market mutual funds, which were valued using one dollar per share.

As of December 31, 2018, WPPI Energy’s recurring fair value measurements by level were as follows:

|                                    | Total                | Fair Value Measurements Using |                      |             |
|------------------------------------|----------------------|-------------------------------|----------------------|-------------|
|                                    |                      | Level 1                       | Level 2              | Level 3     |
| Investments at fair value          |                      |                               |                      |             |
| Debt securities                    |                      |                               |                      |             |
| Money market mutual funds          | \$ 77,177,397        | \$ -                          | \$ 77,177,397        | \$ -        |
| U.S. treasury securities           | 54,117,496           | 54,117,496                    | -                    | -           |
| U.S. agency securities             | 23,353,509           | -                             | 23,353,509           | -           |
| Municipal bonds                    | 1,880,082            | -                             | 1,880,082            | -           |
| Corporate bonds                    | 26,117,724           | -                             | 26,117,724           | -           |
| Negotiable certificates of deposit | 10,802,495           | -                             | 10,802,495           | -           |
| Commercial paper                   | 1,975,261            | -                             | 1,975,261            | -           |
| Total investments at fair value    | <u>\$195,423,964</u> | <u>\$ 54,117,496</u>          | <u>\$141,306,468</u> | <u>\$ -</u> |

As of December 31, 2017, WPPI Energy’s recurring fair value measurements by level were as follows:

|                                    | Total                | Fair Value Measurements Using |                      |             |
|------------------------------------|----------------------|-------------------------------|----------------------|-------------|
|                                    |                      | Level 1                       | Level 2              | Level 3     |
| Investments at fair value          |                      |                               |                      |             |
| Debt securities                    |                      |                               |                      |             |
| Money market mutual funds          | \$ 84,060,844        | \$ -                          | \$ 84,060,844        | \$ -        |
| U.S. treasury securities           | 60,664,903           | 60,664,903                    | -                    | -           |
| U.S. agency securities             | 23,673,448           | -                             | 23,673,448           | -           |
| Municipal bonds                    | 4,990,665            | -                             | 4,990,665            | -           |
| Corporate bonds                    | 23,608,814           | -                             | 23,608,814           | -           |
| Negotiable certificates of deposit | 10,648,243           | -                             | 10,648,243           | -           |
| Commercial paper                   | 693,627              | -                             | 693,627              | -           |
| Total investments at fair value    | <u>\$208,340,544</u> | <u>\$ 60,664,903</u>          | <u>\$147,675,641</u> | <u>\$ -</u> |

### (3) Investment in ATC

WPPI Energy owns an equity interest in ATC. ATC is a for-profit, transmission only company. It owns, plans, maintains, monitors and operates electric transmission assets in portions of Wisconsin, Michigan, Illinois and Minnesota. ATC is a transmission-owning member of MISO and service over ATC's transmission system is currently provided under the MISO tariff. ATC began operations on January 1, 2001. WPPI Energy's equity interest in ATC was approximately 6.7% at December 31, 2018 and 2017. WPPI Energy's investment in ATC qualifies for the equity method of accounting.

Under the terms of the ownership agreement with ATC, WPPI Energy has the right, but not the obligation, to purchase additional member units in ATC through participation in voluntary additional capital calls. At December 31, 2018, WPPI Energy had outstanding commitments to fund ATC of \$334,335. The amount was paid in January, 2019.

Condensed financial information (in millions) of ATC was as follows as of and for the years ended December 31:

|                                       | 2018              | 2017              |
|---------------------------------------|-------------------|-------------------|
| Operating revenues                    | \$ 690.5          | \$ 721.7          |
| Operating expenses                    | (358.7)           | (346.3)           |
| Other income, net                     | 2.4               | 7.4               |
| Interest expense, net                 | (110.7)           | (110.1)           |
| Earnings before members' income taxes | <u>\$ 223.5</u>   | <u>\$ 272.7</u>   |
| Current assets                        | \$ 87.2           | \$ 87.7           |
| Net property, plant and equipment     | 4,921.2           | 4,586.1           |
| Regulatory and other assets           | 7.6               | 12.8              |
| Total assets                          | <u>\$ 5,016.0</u> | <u>\$ 4,686.6</u> |
| Current liabilities                   | \$ 640.0          | \$ 767.2          |
| Long-term debt                        | 2,014.0           | 1,790.6           |
| Regulatory and other liabilities      | 295.3             | 240.3             |
| Members' equity                       | 2,066.7           | 1,888.5           |
| Total liabilities and capitalization  | <u>\$ 5,016.0</u> | <u>\$ 4,686.6</u> |

A new sister entity, ATC Development LLC, was created in 2016 to formally separate ATC's development activities from its operations in its traditional footprint. ATC owners who elect to participate in investments outside the traditional footprint will be able to do so through ATC Development LLC, while the remaining ATC owners will have the opportunity to continue to invest only in the traditional footprint. WPPI Energy has elected not to participate in ATC Development LLC and will have the opportunity to continue to invest only in the traditional footprint. On July 18, 2017, FERC approved ATC's authorization request to sell its interest in Duke-American Transmission Company LLC (DATC) to ATC Development LLC. ATC sold substantially all of its interest in DATC at an immaterial gain in October, 2017. As a result of the sale, WPPI Energy received a cash distribution of \$1,521,872 in 2017. ATC sold the remainder of its interest in DATC in October, 2018.



#### (4) Capital Assets

Capital asset activity was as follows for the years ended December 31:

| 2018                                      | Beginning Balance | Additions       | Retirements    | Transfers    | Ending Balance |
|---|-------------------|-----------------|----------------|--------------|----------------|
| Depreciable assets                        |                   |                 |                |              |                |
| Electric plant and equipment              | \$ 576,549,487    | \$ 469,396      | \$ (6,228,161) | \$ 8,578,615 | \$ 579,369,337 |
| Accumulated depreciation and amortization | (186,348,739)     | (16,291,148)    | 5,881,621      | -            | (196,758,266)  |
| Electric plant and equipment, net         | 390,200,748       | (15,821,752)    | (346,540)      | 8,578,615    | 382,611,071    |
| Nondepreciable assets                     |                   |                 |                |              |                |
| Land                                      | 704,180           | -               | -              | 613,002      | 1,317,182      |
| Construction work in progress             | 6,958,688         | 5,270,387       | -              | (9,195,650)  | 3,033,425      |
| Total capital assets                      | \$ 397,863,616    | \$ (10,551,365) | \$ (346,540)   | \$ (4,033)   | \$ 386,961,678 |

| 2017                                      | Beginning Balance | Additions      | Retirements    | Transfers    | Ending Balance |
|---|-------------------|----------------|----------------|--------------|----------------|
| Depreciable assets                        |                   |                |                |              |                |
| Electric plant and equipment              | \$ 574,838,082    | \$ 613,521     | \$ (4,710,505) | \$ 5,808,389 | \$ 576,549,487 |
| Accumulated depreciation and amortization | (177,034,271)     | (13,406,772)   | 4,092,303      | -            | (186,348,739)  |
| Electric plant and equipment, net         | 397,803,811       | (12,793,251)   | (618,202)      | 5,808,389    | 390,200,748    |
| Nondepreciable assets                     |                   |                |                |              |                |
| Land                                      | 240,922           | -              | -              | 463,258      | 704,180        |
| Construction work in progress             | 4,412,677         | 8,816,467      | -              | (6,270,456)  | 6,958,688      |
| Total capital assets                      | \$ 402,457,410    | \$ (3,976,784) | \$ (618,202)   | \$ 1,191     | \$ 397,863,616 |

In 2018, \$6,198,128 and \$613,000 was transferred from construction work in progress to electric plant and equipment and land, respectively, as a result of the completion of the Badger-Coulee project. At December 31, 2018, the balance in construction work in progress was primarily for ongoing capital projects at Boswell Unit 4. At December 31, 2017, the balance in construction work in progress consisted primarily of various capital projects at Boswell Unit 4 and ongoing construction of the Badger-Coulee project.

**(5) Asset Retirement Obligations**

WPPI Energy follows Financial Accounting Standards Board Accounting Standards Codification 410, *Asset Retirement and Environmental Obligations* (FASB ASC 410), which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FASB ASC 410 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset.

The scope of FASB ASC 410 includes asset retirement obligations for the closure of ash and scrubber ponds at the Boswell site and the removal and dismantlement of ERGS Units 1 and 2. WPPI Energy uses information from Minnesota Power and WEPCO to estimate the cash flows to determine the obligations.

WPPI Energy’s asset retirement obligations were comprised of the following at December 31:

|                            | 2018                | 2017                |
|----------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 5,468,784        | \$ 5,275,119        |
| Accretion                  | 200,809             | 193,665             |
| Cash flow revisions        | -                   | -                   |
| Balance, end of year       | <u>\$ 5,669,593</u> | <u>\$ 5,468,784</u> |

**(6) Long-Term Debt**

During 2018, WPPI issued \$41,340,000 of Power Supply System Revenue Bonds, Series 2018 A bonds (2018 A bonds) to refund a portion of the outstanding Power Supply System Revenue Bonds, Series 2008 A (2008 A Refunded Bonds). Bonds maturing on July 1, 2021 through July 1, 2037 with a total par amount of \$47,300,000 were refunded as a current refunding with the issuance of the 2018 A bonds.

Proceeds of the 2018 A bonds along with certain other funds totaling \$48,324,809 were irrevocably escrowed to make the remaining principal and interest payments on the 2008 A Refunded Bonds. The 2008 A Refunded Bonds plus accrued interest were redeemed on July 1, 2018.

The current refunding portion of the 2008 A Refunded Bonds reduced total debt service payments between the old and the new debt by \$7,756,553, resulting in an economic gain of \$6,536,809. A loss on reacquired debt in the amount of \$3,196,686 was recognized as a deferred outflow of resources and will be amortized over the repayment period of the 2018 A bonds.

On July 1, 2018, WPPI Energy called the remaining outstanding Power Supply System Revenue Bonds, Series 2008 A. Bonds maturing on July 1, 2019 and July 1, 2020 with a total par value of \$15,195,000 million were paid off with available funds on hand.

Bonds maturing on July 1, 2019 through July 1, 2037 for the Power Supply System Revenue Bonds, Series 2008 A with a total par amount of \$82,170,000 (2008 A Advance Refunded Bonds) were refunded as an advance refunding with the issuance of the Power Supply System Revenue Bonds, Series 2016 A (2016 A bonds). Proceeds of the 2016 A bonds along with certain other funds totaling \$91,227,167 were irrevocably escrowed to make the remaining principal and interest payments on the 2008 A Advance Refunded Bonds (the Escrowed Bonds). At December 31, 2017, the par amount of Escrowed Bonds outstanding and considered defeased was \$82,170,000 and the balance of the escrow account was \$85,721,251. The U.S. government securities required to be held in the escrow account was carried at cost. On July 1, 2018, the 2008 A Advance Refunded Bonds were redeemed and a final interest payment was made, resulting in no remaining funds in the escrow account established with the issuance of the 2016 A bonds.

The following outstanding Power Supply System Revenue Bonds were issued to finance WPPI Energy's acquisition and construction of electric plant and equipment:

|   | <u>2018</u>           | <u>2017</u>           |
|---|-----------------------|-----------------------|
| 2008 Series A 5.00% to 5.25%              |                       |                       |
| Due July 1, 2017 - 2037                   | \$ -                  | \$ 78,850,000         |
| 2013 Series A 4.00% to 5.00%              |                       |                       |
| Due July 1, 2017 - 2037                   | 159,145,000           | 167,155,000           |
| 2014 Series A 5.00%                       |                       |                       |
| Due July 1, 2025 - 2037                   | 66,410,000            | 66,410,000            |
| 2016 Series A 3.00% to 5.00%              |                       |                       |
| Due July 1, 2019 - 2037                   | 75,555,000            | 75,555,000            |
| 2018 Series A 5.00%                       |                       |                       |
| Due July 1, 2021 - 2037                   | <u>41,340,000</u>     | <u>-</u>              |
| Total revenue bonds outstanding           | 342,450,000           | 387,970,000           |
| Current maturities                        | (18,150,000)          | (24,365,000)          |
| Unamortized premium                       | <u>42,131,567</u>     | <u>42,170,727</u>     |
| Revenue bonds, net of unamortized premium | <u>\$ 366,431,567</u> | <u>\$ 405,775,727</u> |

The Power Supply System Revenue Bonds are generally secured by all funds and revenues of WPPI Energy derived from the ownership and operation of its power supply system. The unamortized premium is amortized over the terms of the related bond issues using a method that approximates the effective-interest method.

Debt service payments on WPPI Energy's outstanding bonds are as follows:

| Year      | Principal             | Interest              | Total                 |
|-----------|-----------------------|-----------------------|-----------------------|
| 2019      | \$ 18,150,000         | \$ 16,921,944         | \$ 35,071,944         |
| 2020      | 18,930,000            | 16,014,444            | 34,944,444            |
| 2021      | 14,855,000            | 15,067,944            | 29,922,944            |
| 2022      | 16,940,000            | 14,325,194            | 31,265,194            |
| 2023      | 16,325,000            | 13,478,194            | 29,803,194            |
| 2024-2028 | 85,325,000            | 55,253,869            | 140,578,869           |
| 2029-2033 | 95,090,000            | 33,248,469            | 128,338,469           |
| 2034-2037 | <u>76,835,000</u>     | <u>8,877,975</u>      | <u>85,712,975</u>     |
| Total     | <u>\$ 342,450,000</u> | <u>\$ 173,188,033</u> | <u>\$ 515,638,033</u> |

Long-term debt and non-current liability activity was as follows for the years ended December 31:

| 2018                                      | Beginning Balance     | Additions            | Reductions             | Ending Balance        |
|---|-----------------------|----------------------|------------------------|-----------------------|
| Long-term debt                            |                       |                      |                        |                       |
| Total bonds outstanding                   | \$ 387,970,000        | \$ 41,340,000        | \$ (86,860,000)        | \$ 342,450,000        |
| Less: current maturities                  | 24,365,000            | 33,345,000           | (39,560,000)           | 18,150,000            |
| Add: unamortized premium                  | 42,170,727            | 6,587,968            | (6,627,128)            | 42,131,567            |
| Revenue bonds, net of unamortized premium | <u>\$ 405,775,727</u> | <u>\$ 14,582,968</u> | <u>\$ (53,927,128)</u> | <u>\$ 366,431,567</u> |
| Non-current liabilities                   |                       |                      |                        |                       |
| Asset retirement obligations              | \$ 5,468,784          | \$ 200,809           | \$ -                   | \$ 5,669,593          |
| Benefits liabilities                      | 2,448,859             | 960,418              | (964,911)              | 2,444,366             |
| Total non-current liabilities             | <u>\$ 7,917,643</u>   | <u>\$ 1,161,227</u>  | <u>\$ (964,911)</u>    | <u>\$ 8,113,959</u>   |

| 2017                                      | Beginning Balance     | Additions              | Reductions            | Ending Balance        |
|---|-----------------------|------------------------|-----------------------|-----------------------|
| Long-term debt                            |                       |                        |                       |                       |
| Total bonds outstanding                   | \$ 411,410,000        | \$ -                   | \$ (23,440,000)       | \$ 387,970,000        |
| Less: current maturities                  | 23,440,000            | 24,365,000             | (23,440,000)          | 24,365,000            |
| Add: unamortized premium                  | 46,394,808            | -                      | (4,224,081)           | 42,170,727            |
| Revenue bonds, net of unamortized premium | <u>\$ 434,364,808</u> | <u>\$ (24,365,000)</u> | <u>\$ (4,224,081)</u> | <u>\$ 405,775,727</u> |
| Non-current liabilities                   |                       |                        |                       |                       |
| Accounts payable                          | \$ 17,000             | \$ -                   | \$ (17,000)           | \$ -                  |
| Asset retirement obligations              | 5,275,119             | 193,665                | -                     | 5,468,784             |
| Benefits liabilities                      | 2,267,279             | 462,438                | (280,858)             | 2,448,859             |
| Total non-current liabilities             | <u>\$ 7,559,398</u>   | <u>\$ 656,103</u>      | <u>\$ (297,858)</u>   | <u>\$ 7,917,643</u>   |

**(7) Available Financing**

WPPI Energy has a credit agreement and letter of credit commitment with JPMorgan Chase Bank, N.A. (JPMorgan) through January 31, 2021. The terms permit borrowing of up to \$40,000,000 less any outstanding letters of credit issued, with interest accruing on the unpaid amount outstanding at a rate per annum equal to applicable LIBO Rate plus 115 basis points.

As of December 31, 2018, JPMorgan has issued a \$3,000,000 letter of credit on behalf of WPPI Energy for the benefit of MISO as collateral for WPPI Energy's participation in MISO's financial transmission rights market.

At December 31, 2018 and 2017, there was no outstanding balance on the revolving line of credit.

**(8) Significant Members**

On a combined basis, two significant members of WPPI Energy accounted for \$65,328,401 and \$75,030,622, or approximately 14.5% and 15.9%, of total operating revenues for the years ended December 31, 2018 and 2017, respectively, and have long-term contracts through December 31, 2055 (see Note 1(a)).

**(9) Employee Benefits**

**(a) Retention Plan**

WPPI Energy maintains an employee retention plan with payment obligations out until 2023. The plan will make payments to specific employees who complete defined years of continuing employment. Plan benefit expenses accrued for the years ended December 31, 2018 and 2017 were \$443,556 and \$248,453, respectively.

**(b) Pension**

On January 1, 2017, all eligible employees commenced participation in the Wisconsin Retirement System (WRS), a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are in accordance with Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The WRS provides coverage to all eligible State of Wisconsin, local government and other public employees and is administered by the Wisconsin Department of Employee Trust Funds (ETF). As a municipal electric company, all eligible employees of WPPI Energy are classified in the WRS under the general employee category. For reporting purposes, the following WRS participating terms are based on the general employee category classification only.

All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Employees who retire at or after age 65 are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are (i) final average earnings, (ii) years of creditable service and (iii) a formula factor. Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category. Employees may retire at age 55 and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits. The WRS also provides death and disability benefits for employees.

The EFT's Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with Section 40.27 of the Wisconsin Statutes. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the WRS' consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

| Year | Core Fund<br>Adjustment | Variable Fund<br>Adjustment |
|------|-------------------------|-----------------------------|
| 2007 | 3.0%                    | 10.0%                       |
| 2008 | 6.6%                    | 0.0%                        |
| 2009 | -2.1%                   | -42.0%                      |
| 2010 | -1.3%                   | 22.0%                       |
| 2011 | -1.2%                   | 11.0%                       |
| 2012 | -7.0%                   | -7.0%                       |
| 2013 | -9.6%                   | 9.0%                        |
| 2014 | 4.7%                    | 25.0%                       |
| 2015 | 2.9%                    | 2.0%                        |
| 2016 | 0.5%                    | -5.0%                       |
| 2017 | 2.0%                    | 4.0%                        |

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. During 2017, the WRS recognized \$659,021 in contributions from WPPI Energy. Contribution rates for the employee and employer were each 6.7% and 6.8% as of December 31, 2018 and 2017, respectively.

At December 31, 2018, WPPI Energy recognized a liability (asset) of \$(2,003,465) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. WPPI Energy's proportion of the net pension liability (asset) was based on its share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, WPPI Energy's proportion was 0.06747679%. For the year ended December 31, 2018, WPPI Energy recognized pension expense of \$612,929.

At December 31, 2017, WPPI Energy did not recognize a liability (asset) for its proportionate share of the net pension liability (asset) nor any pension expense during the year since the measurement date of December 31, 2016 preceded WPPI Energy's participation in the WRS.

A schedule of deferred outflows and inflows of resources related to pensions are as follows at December 31:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| 2018  |                                      |                                     |
| Differences between expected and actual experience  | \$ 2,545,455                         | \$ 1,190,678                        |
| Net difference between projected and actual earnings on pension plan investments                              | -                                    | 2,753,579                           |
| Changes in assumptions  | 395,845                              | -                                   |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | -                                    | 1,026,417                           |
| Employer contributions subsequent to the measurement date   | 669,535                              | -                                   |
| Total   | \$ 3,610,835                         | \$ 4,970,674                        |

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| 2017  |                                      |                                     |
| Employer contributions subsequent to the measurement date | \$ 662,101                           | \$ -                                |
| Total   | \$ 662,101                           | \$ -                                |

During 2018 and 2017, WPPI Energy provided additional voluntary employer contributions of \$69,131 and \$65,244, respectively, to the WRS on behalf of certain employees, which does not impact WPPI Energy's proportionate share of the net pension liability (asset) nor its pension expense. The net balances reported as deferred outflows (inflows) of resources related to pension will be recognized in pension expense as follows for the year ending December 31:

|            |                |
|------------|----------------|
| 2019       | \$ 630,182     |
| 2020       | (273,717)      |
| 2021       | (943,153)      |
| 2022       | (775,910)      |
| 2023       | 2,759          |
| Thereafter | -              |
| Total      | \$ (1,359,839) |

The total pension liability (asset) in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                                    | <u>2018</u>                       |
|------------------------------------|-----------------------------------|
| Actuarial valuation date           | 12/31/2016                        |
| Measurement date                   | 12/31/2017                        |
| Actuarial cost method              | Entry Age                         |
| Asset valuation method             | Fair Market Value                 |
| Long-term expected rate of return  | 7.2%                              |
| Discount rate                      | 7.2%                              |
| Salary increases - inflation       | 3.2%                              |
| Salary increases - seniority/merit | 0.2% - 5.6%                       |
| Mortality                          | Wisconsin 2012<br>Mortality Table |
| Post-retirement adjustments*       | 2.1%                              |

\*No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. The assumed annual adjustment of 2.1% is based on the investment return assumption and post-retirement discount rate.

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012 through 2014. The total pension liability (asset) for December 31, 2017 is based upon a roll-forward of the liability (asset) calculated from the December 31, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.



The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows as of December 31, 2017:

|                                  | Asset<br>Allocation<br>% | Long-Term<br>Expected<br>Nominal<br>Rate of<br>Return % | Long-Term<br>Expected<br>Real<br>Rate of<br>Return % |
|----------------------------------|--------------------------|---|--|
| <u>Core Fund Asset Class</u>     |                          |   |  |
| Global equities                  | 50.0%                    | 8.2%  | 5.3%   |
| Fixed income                     | 24.5%                    | 4.2%  | 1.4%   |
| Inflation sensitive assets       | 15.5%                    | 3.8%  | 1.0%   |
| Real estate                      | 8.0%                     | 6.5%  | 3.6%   |
| Private equity/debt              | 8.0%                     | 9.4%  | 6.5%   |
| Multi-asset                      | 4.0%                     | 6.5%  | 3.6%   |
| Total core fund                  | <u>110.0%</u>            | <u>7.3%</u>   | <u>4.4%</u>  |
| <u>Variable Fund Asset Class</u> |                          |   |  |
| U.S. equities                    | 70.0%                    | 7.5%  | 4.6%   |
| International equities           | 30.0%                    | 7.8%  | 4.9%   |
| Total variable fund              | <u>100.0%</u>            | <u>7.9%</u>   | <u>5.0%</u>  |

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%

Asset allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.31%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents WPPI Energy's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20%, as well as what its proportionate share of the net pension liability (asset) would be if it were calculated using discount rates that are one percentage point lower and one percentage point higher than the current discount rate as follows at December 31:

|                             | 2018         | 2017 |
|-----------------------------|--------------|------|
| One percentage point lower  | \$ 5,183,650 | \$ - |
| Current discount rate       | (2,003,465)  | -    |
| One percentage point higher | (7,465,896)  | -    |

Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements at <http://etf.wi.gov/publications/cafr.htm>.

WPPI Energy had a payable of \$96,090 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2018. The amount was paid in January, 2019.

**(c) Other Postemployment Benefits (OPEB)**

On January 1, 2002, WPPI Energy adopted the WPPI Energy Post-Employment Benefit Plan (Plan), a single-employer defined benefit plan that provides limited postemployment health plan coverage for eligible employees. An employee who reaches age 60 and has ten years of service with WPPI Energy qualifies for retiree coverage under the health insurance plan in which WPPI Energy participates. For each full year worked past ten, the employee receives one year of benefit credit. An employee can earn up to a maximum of five years of benefit credits. For each year of benefit credit, WPPI Energy will reimburse the employee for a portion of the cost of health insurance. Full-time employees qualify for 50% reimbursement and part-time employees will receive a pro rata portion. Upon eligibility for Medicare, full-time employees may be reimbursed up to 100% and part-time employees a pro rata portion of the cost of a Medicare supplemental policy, subject to certain caps. Separate plans provide health insurance premium payments for life for one retired participant and one retired participant and spouse. WPPI Energy administers the Plan and does not charge for services. WPPI Energy's Executive Committee approves amendments to the Plan. At December 31, 2018, there were 105 active participants and 4 retired participants. At December 31, 2017, there were 105 active participants and 7 retired participants.

WPPI Energy's Board of Directors did not designate earnings to be held for the purpose of funding future OPEB obligations in 2018 and 2017. Since inception, \$1,365,000 has been designated for the purpose of funding future OPEB obligations. For these designations to be recognized toward funding future OPEB obligations under GASB 75, they would need to be administered through a qualifying trust. WPPI Energy holds the dollars in a segregated account, but the dollars remain under WPPI Energy's control. There are no standalone financial statements for the Plan.

Effective January 1, 2018, WPPI Energy adopted GASB 75 (see Note 1(aa)) and recognized a cumulative effect of change in accounting principle which resulted in a \$252,646 decrease to the total OPEB liability and a \$252,646 increase to net position as of January 1, 2018. GASB 75 replaced GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Pensions* (GASB 45). For the years ended December 31, 2018 and 2017, OPEB information presented below is reported under GASB 75 and GASB 45, respectively. Additional schedules are presented in the Required Supplemental Information section.

## 2018

Components of and changes in WPPI Energy's total OPEB liability were as follows at December 31:

|  | <u>2018</u>         |
|--|---------------------|
| Balance, beginning of year             | \$ 1,545,914        |
| Service cost                           | 106,135             |
| Interest on total OPEB liability       | 61,251              |
| Changes of assumptions or other inputs | <u>51,460</u>       |
| Balance, end of year                   | <u>\$ 1,764,760</u> |

The total OPEB liability was determined by an actuarial valuation as of the measurement date, calculated based on the discount rate and actuarial assumptions. The actuarial assumptions were based on the results of an actuarial experience study for the period 2012-2014 for the WRS. Key actuarial assumptions were as follows at December 31:

|                              | <u>2018</u>                       |
|------------------------------|-----------------------------------|
| Actuarial valuation date     | 12/31/2018                        |
| Measurement date             | 12/31/2017                        |
| Actuarial cost method        | Entry Age                         |
| Salary increases - inflation | 3.2%                              |
| Mortality                    | Wisconsin 2012<br>Mortality Table |

Healthcare cost trend rates, based on the Getzen Model of Long-Run Medical Cost Trends published by the Society of Actuaries, begin in 2019 and transition to an ultimate in 2074 and were as follows:

|          | <u>Pre 65</u> | <u>Post 65</u> | <u>Part B Premium</u> |
|----------|---------------|----------------|-----------------------|
| Initial  | 8.20%         | 5.70%          | 1.10%                 |
| Ultimate | 3.90%         | 3.80%          | 3.90%                 |

Under GASB 75, employers not accumulating assets through a qualifying trust are required to select a discount rate based on a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The discount rate selected by WPPI Energy was based on the Bond Buyer 20-Bond GO Index rate published closest to, but not later than, the measurement date.

The total OPEB liability, calculated using a discount rate of 3.44%, as well as what the total OPEB liability would be if it were calculated using discount rates that are one percentage point lower and one percentage point higher than the current discount rate was as follows at December 31:

|                             | <u>2018</u>  |
|-----------------------------|--------------|
| One percentage point lower  | \$ 1,926,737 |
| Current discount rate       | 1,764,760    |
| One percentage point higher | 1,618,337    |

The total OPEB liability, calculated using the annual medical trend rates above as well as what the total OPEB liability would be if it were calculated using annual medical trend rates that are one percentage point lower and one percentage point higher than the current annual medical trend rates was as follows at December 31:

|                                    | 2018         |
|------------------------------------|--------------|
| One percentage point lower         | \$ 1,646,127 |
| Current annual medical trend rates | 1,764,760    |
| One percentage point higher        | 1,904,775    |

For the year ended December 31, 2018, WPPI Energy recognized OPEB expense of \$171,513. Components of OPEB expense and deferred outflows and inflows of resources related to OPEB were as follows at December 31:

| 2018   | Original<br>Amount | Date<br>Established | Recognized<br>in OPEB<br>Expense | Balance of<br>Deferred<br>Outflows of<br>Resources | Balance of<br>Deferred<br>Inflows of<br>Resources |
|--|--------------------|---------------------|----------------------------------|--|---|
| Service cost (1)                                     | \$ 106,135         | 12/31/2018          | \$ 106,135                       | \$ -   | \$ -  |
| Interest on total OPEB liability (1)                 | 61,251             | 12/31/2018          | 61,251                           | -  | -   |
| Changes of assumptions<br>or other inputs (2)        | 51,460             | 12/31/2018          | 4,127                            | 47,333   | -   |
| Contributions made subsequent<br>to measurement date | 64,571             | 12/31/2018          | -                                | 64,571   | -   |
| <b>Total</b>   | <b>\$ 283,417</b>  |                     | <b>\$ 171,513</b>                | <b>\$ 111,904</b>                                  | <b>\$ -</b>                                       |

- (1) WPPI Energy recognized in OPEB expense, the original amount associated with these components, for the year ended December 31, 2018 (the period of the change).
- (2) WPPI Energy recognized in OPEB expense over a closed period equal to the average of the expected remaining service lives of active and inactive participants that are provided benefits through the Plan, beginning with the year ended December 31, 2018.

The net balances reported as deferred outflows (inflows) of resources related to OPEB will be recognized in OPEB expense as follows for the years ending December 31:

|              |                   |
|--------------|-------------------|
| 2019         | \$ 68,698         |
| 2020         | 4,127             |
| 2021         | 4,127             |
| 2022         | 4,127             |
| 2023         | 4,127             |
| Thereafter   | 26,698            |
| <b>Total</b> | <b>\$ 111,904</b> |

**2017**

WPPI Energy's net OPEB obligation was \$1,798,560 at December 31, 2017. For the year ended December 31, 2017, OPEB expense was \$213,985 and \$63,872 in benefits were paid. WPPI Energy's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

As of December 31, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$2,213,665 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,213,665. In accordance with the minimum frequency provisions under GASB 45, the actuarial valuation date used to determine the OPEB obligation was December 31, 2016. No significant changes in long-term key assumptions have occurred since this the previous valuation, as determined by Management. In the actuarial valuation, the projected unit credit actuarial cost method was used. A 30-year amortization period was used with a level dollar amortization method. The actuarial assumptions also include a 3% discount rate. Healthcare cost trend rates, based on the Getzen Model of Long-Run Medical Cost Trends published by the Society of Actuaries, begin in 2017 and transition to an ultimate in 2074, 2076 and 2063, respectively, and were as follows:

|                             | <u>Pre 65</u> | <u>Post 65</u> | <u>Part B Premium</u> |
|-----------------------------|---------------|----------------|-----------------------|
| Initial                     | 6.00%         | 6.30%          | 1.30%                 |
| Ultimate (2074, 2076, 2063) | 4.00%         | 3.90%          | 4.70%                 |

The UAAL, ARC and net OPEB obligation were as follows at December 31:

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| Actuarial accrued liability                         | \$ 2,213,665        | \$ 2,213,665        |
| Present value of future normal costs                | <u>1,701,241</u>    | <u>1,701,241</u>    |
| Actuarial present value of total projected benefits | 3,914,906           | 3,914,906           |
| Schedule of funded status                           |                     |                     |
| Actuarial accrued liability                         | 2,213,665           | 2,213,665           |
| Actuarial value of assets                           | <u>-</u>            | <u>-</u>            |
| UAAL  | 2,213,665           | 2,213,665           |
| Funded ratio  | -                   | -                   |
| Covered payroll                                     | 9,867,168           | 9,093,402           |
| UAAL as a percentage of covered payroll             | 22.43%              | 24.34%              |
| Determination of annual required contribution       |                     |                     |
| Normal cost for benefits                            | 133,245             | 161,253             |
| Amortization of unfunded actuarial liability        | <u>112,940</u>      | <u>111,123</u>      |
| ARC   | 246,185             | 272,376             |
| Net OPEB obligation                                 |                     |                     |
| ARC   | 246,185             | 272,376             |
| Interest on net OPEB obligation                     | 49,454              | 43,860              |
| Adjustment to annual required contribution          | (81,654)            | (72,417)            |
| Contributions made                                  | <u>(63,872)</u>     | <u>(56,527)</u>     |
| Change in net OPEB obligation                       | 150,113             | 187,292             |
| Net OPEB obligation, beginning of year              | <u>1,648,447</u>    | <u>1,461,155</u>    |
| Net OPEB obligation, end of year                    | <u>\$ 1,798,560</u> | <u>\$ 1,648,447</u> |

#### (10) Derivative Instruments

In accordance with GASB 53, derivative instruments are reported on the Statements of Net Position at fair value. GASB 53 requires all potential hedging derivative instruments to be evaluated for effectiveness at the end of each reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. Derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments and require the application of hedge accounting under GASB 53.

Under hedge accounting, the changes in fair value of hedging derivative instruments are reported as either a deferred outflow of resources or a deferred inflow of resources on the Statements of Net Position until termination, at which time any realized gains or losses either increase or decrease purchased power expenses in the contract month. The changes in fair value of derivative instruments that are determined to be ineffective are reported within investment income on the Statements of Revenue, Expenses and Changes

in Net Position. Under GASB 62, a regulatory asset or liability may be recorded as an offset to the net fair value of the hedging derivative instrument until the settlement month is reached.

WPPI Energy did not hold any potential hedging derivatives at December 31, 2018 and 2017. All other power contracts fall under the normal purchases and sales contracts exception within GASB 53, or are contracts where WPPI Energy expects to take physical delivery of the power.

**(11) Menasha Asset Purchase and Lease**

On April 6, 2011 WPPI Energy and one of its members, the City of Menasha (Menasha), closed on an asset purchase and sale agreement under which WPPI Energy purchased substantially all of the distribution assets of Menasha’s electric utility and all of Menasha’s ownership interests in ATC for a total purchase price of \$18.3 million. The total purchase price consisted of i) \$13.32 million for Menasha’s distribution assets, which are leased back to Menasha for a term of 20 years, ii) \$2.74 million for Menasha’s ownership interests in ATC and iii) an acquisition premium associated with the entire transaction of \$2.24 million. This transaction provided Menasha a source of funds to help resolve all outstanding issues with creditors of a failed steam utility project undertaken by Menasha. The distribution assets were leased back to Menasha under a capital lease.

On September 13, 2016, Menasha and WPPI Energy filed a joint application for regulatory approval to authorize Menasha to exercise its option to repurchase the distribution assets from WPPI Energy, prior to the end of the capital lease, according to a specified payment schedule. On February 10, 2017, the Public Service Commission of Wisconsin issued its final decision and authorized Menasha’s aforementioned repurchase option, as described in the joint application, subject to a closing date adjustment and the conditions included in the final decision. On March 1, 2017, the transaction closed and WPPI Energy received a final payment of \$11,066,682.

**(12) Risk Management**

WPPI Energy is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers’ compensation; and health care of its employees. The generating units are covered by insurance, including property and boiler and machinery policies. WPPI Energy is responsible for deductibles under the policies. Other risks are covered through the purchase of commercial insurance, with minimal deductibles. For 2018 and 2017, there were no settlements exceeding coverage.

WPPI Energy maintains assets in the Self-Insurance Fund (see Note 2) to be applied to the payment of claims and losses, including deductibles arising from hazards and risks to the extent that insurance does not cover such claims or losses.

Following is the activity for the self-insurance reserve for the years ended December 31:

|                                  | 2018                | 2017                |
|----------------------------------|---------------------|---------------------|
| Balance, beginning of year       | \$ 4,878,488        | \$ 4,812,598        |
| Additions, representing interest | 73,425              | 65,890              |
| Balance, end of year             | <u>\$ 4,951,913</u> | <u>\$ 4,878,488</u> |

WPPI Energy maintains assets in the Renewal and Replacement Fund (see Note 2) to be applied to the payment of major long-term maintenance associated with its owned generating units as allowed through the application of GASB 62.

Following is the activity for the long-term maintenance reserve for the years ended December 31:

|                            | 2018                | 2017                |
|----------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 7,691,962        | \$ 8,648,115        |
| Additions                  | 1,899,286           | 1,414,950           |
| Usage                      | <u>(245,156)</u>    | <u>(2,371,103)</u>  |
| Balance, end of year       | <u>\$ 9,346,092</u> | <u>\$ 7,691,962</u> |

### (13) Commitments and Contingencies

WPPI Energy follows GASB 62, which addresses financial accounting and disclosure requirements for loss and gain contingencies. A liability associated with a loss contingency is recognized only if the available information indicates that it is probable and can be reasonably estimated. Gain contingencies are not recognized until realized.

WPPI Energy has a mix of purchase power agreements of varying durations with a number of suppliers used to meet a portion of the electric power requirements of its members. The major purchase power agreements are described in Note 1(t). In addition, WPPI Energy has purchase power agreements from other wind, run of river hydro, landfill gas and solar resources with name plate capacity totaling approximately 176 MW at December 31, 2018 and 2017, respectively.

In January 2017, WPPI Energy entered into a purchase power agreement to buy the electricity from the planned Point Beach Solar Energy Center through May 31, 2042. Point Beach Solar LLC plans to develop and construct the Point Beach Solar Energy Center on a site adjacent to Point Beach Nuclear Plant (see Note 1(t)). It is expected that the Point Beach Solar Energy Center will have an installed capacity of approximately 99 MW and begin commercial operation in 2021.

WPPI Energy participates in the MISO market. MISO routinely true-ups revenues and expenses for up to 105 days. Under special circumstances, MISO has true-up revenues and expenses for longer durations. WPPI Energy accrues items that are known at the time of closing, but since there is such a large window of true-ups, actual results may differ from the estimates.

On November 12, 2013, a group of organizations filed a complaint with FERC seeking, among other things, to lower the base return on equity (ROE) of certain transmission-owning members of MISO, including ATC. This first complaint covers the period from November 12, 2013 through February 11, 2015.

On December 22, 2015, the administrative law judge issued an initial decision on the first complaint recommending a base ROE of 10.32%, and requiring MISO to refund, with interest, the difference between the revenues they collected during the period and the lower amount authorized. On September 28 2016, FERC affirmed the administrative law judge's initial decision recommending a base ROE of 10.32% with respect to the first complaint and ordered MISO transmission owners to submit compliance filings to revise their tariffs and issue refunds, with interest. During 2017, WPPI Energy received refunds totaling \$5.0 million, including interest, for certain transmission service charges it previously paid during the period related to the first complaint.

On February 12, 2015, a second complaint was filed with FERC seeking, among other things, to lower the base ROE from that date forward. This second complaint covers the period from February 12, 2015 through May 11, 2016.



On June 30, 2016, the administrative law judge issued an initial decision on the second complaint recommending a base ROE of 9.70%, and requiring MISO to refund, with interest, the difference between the revenues they collected during period and the lower amount authorized. A final FERC decision on the administrative law judge's initial decision has not yet been made.

Prior to a final FERC decision on the administrative law judge's initial decision on the second complaint, on November 15, 2018, FERC issued an order (November 2018 Order) in the first and second complaint dockets. The November 2018 Order follows an October 16, 2018 FERC order (October 2018 Order) proposing changes to the ROE methodology that was used in the first and second complaint proceedings. The proposed changes result from a determination by U.S. Court of Appeals for the District of Columbia Court in 2017 that the methodology relied upon in the first and second complaint proceedings (and other FERC proceedings) had not been adequately justified by FERC. The November 2018 Order established a paper hearing on whether and how the methodology proposed in the October 2018 Order should apply to the first and second complaint dockets. FERC directed the docket participants to submit briefs regarding the proposed methodology, and whether and how to apply it to the first and second complaints. Briefing is expected to conclude in the first half of 2019, after which FERC is expected to issue a decision.

While WPPI Energy cannot predict the outcome of these FERC proceedings, if base ROEs for certain MISO transmission owners, including ATC, are reduced, the rate of return WPPI Energy will receive for its share of the CapX 2020 La Crosse project and the Badger-Coulee project, and the rate of return of WPPI Energy's investment in ATC, will decrease. WPPI Energy's overall transmission costs to serve its members will reflect these reduced base ROEs. As of December 31, 2018 and 2017, WPPI Energy recorded a regulatory liability of \$41,348 and \$29,545, respectively, for its share of the CapX 2020 La Crosse project, subject to refund (see Note 1(u)).

On August 21, 2018, the U.S. Environmental Protection Agency (EPA) proposed the Affordable Clean Energy (ACE) rule which would establish emission guidelines for states to develop plans to address greenhouse gas emissions from existing coal-fired power plants. The ACE rule would replace the final rule known as the Clean Power Plan (CPP), which the EPA proposed to repeal in 2017. The CPP was stayed by the U.S. Supreme Court in 2016 and has never gone into effect. WPPI Energy is unable to predict the outcome of any legal challenges or the potential impact on the final form and timing of these regulations.

WPPI Energy's electric utility operations are subject to continuing environmental regulation and federal, state, regional and local standards and procedures that regulate the environmental impact of WPPI Energy's system, and the systems of utilities from which WPPI Energy purchases power, and are subject to change. Any such changes may arise from legislative, regulatory or judicial actions.

#### **(14) Subsequent Events**

Effective January 1, 2019, WPPI Energy transitioned from a self-funded health benefit to a fully insured health insurance program. WPPI Energy has recorded an expense of \$90,897 at December 31, 2018 for incurred but not reported claims that is the estimated amount of the claims paid during the run-out period.

**REQUIRED SUPPLEMENTAL INFORMATION**

**WPPI Energy**  
**Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset)**  
**Wisconsin Retirement System**

| Fiscal<br>Year<br>End | Proportion of<br>the Net Pension<br>Liability (Asset) | Proportionate<br>Share of the<br>Net Pension<br>Liability (Asset) | Covered<br>Payroll | Proportionate<br>Share of the<br>Net Pension<br>Liability (Asset)<br>as a Percentage<br>of Covered<br>Payroll | Plan Fiduciary<br>Net Position<br>as a Percentage<br>of the Total<br>Pension<br>Liability (Asset) |
|-----------------------|---|---|--------------------|---|---|
| 12/31/18              | 0.06747679%   | \$ (2,003,465)  | \$ 9,691,520       | -20.67%   | 102.93%   |

Note: Schedule is intended to show information for 10 years.  
 Additional years will be displayed as they become available.

**WPPI Energy**  
**Schedule of Employer Contributions**  
**Wisconsin Retirement System**

| Fiscal Year End | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-----------------|--------------------------------------|---|----------------------------------|-----------------|--|
| 12/31/18        | \$ 659,021                           | \$ 659,021  | \$ -                             | \$ 9,915,877    | 6.65%  |

Note: Schedule is intended to show information for 10 years.  
 Additional years will be displayed as they become available.

**WPPI Energy**  
**Schedule of Changes in the Employer's Total OPEB Liability and Related Ratios**  
**Year Ended December 31**

|   | <u>2018</u>         |
|---|---------------------|
| Balance, beginning of year                            | \$ 1,545,914        |
| Service cost  | 106,135             |
| Interest on total OPEB liability                      | 61,251              |
| Changes of assumptions or other inputs                | <u>51,460</u>       |
| Balance, end of year                                  | <u>\$ 1,764,760</u> |
| Covered payroll                                       | \$ 10,161,638       |
| Total OPEB liability as percentage of covered payroll | 17.37%              |

Note: Schedule is intended to show information for 10 years.  
Additional years will be displayed as they become available.  
Schedule uses the optional format of combining the required schedules.  
Assets are not accumulated in a qualifying trust to pay related benefits.

**WPPI Energy**  
**Schedule of Funding Progress - Other Postemployment Benefits**

| Fiscal Year End | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | Ratio of UAAL to Covered Payroll |
|-----------------|--------------------------|---------------------------|-----------------------------|---|--------------|-----------------|----------------------------------|
| 12/31/17        | 12/31/16                 | \$ -                      | \$ 2,213,665                | \$2,213,665                                 | 0.00%        | \$9,867,168     | 22.43%                           |
| 12/31/16        | 12/31/16                 | \$ -                      | \$ 2,213,665                | \$2,213,665                                 | 0.00%        | \$9,093,402     | 24.34%                           |