

WPPI Energy

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

WPPI Energy

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December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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.

To the Board of Directors
WPPI Energy

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 Vinchow Krause, LLP

Madison, Wisconsin
March 2, 2017

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, 2016 and 2015. 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 2016 and 2015. The following is a description of these events and their impact on WPPI Energy's financial statements and the accompanying notes.

2016

Bond Issuance

On April 27, 2016, WPPI Energy closed on the issuance of \$75.555 million (par value) in fixed rate bonds, the Power Supply System Revenue Bonds, Series 2016 A (2016 A bonds). WPPI Energy used the proceeds from the 2016 A bonds to advance refund a portion of the outstanding Power Supply System Revenue Bonds, Series 2008 A, maturing on July 1, 2019 through July 1, 2037 with a total par amount of \$82.17 million. The advance refunding resulted in present value savings of \$9.8 million.

Organization and Operations

WPPI Energy sells wholesale electricity to its members under long-term contracts. During 2016 and 2015, action was taken to extend the initial term of the long-term contracts to December 31, 2055 from December 31, 2037. Forty-nine members, representing approximately 98% of WPPI Energy's existing load, executed documents resulting in long-term contracts with terms through December 31, 2055. The initial term of the long-term contracts for the remaining two members ends December 31, 2037.

On December 10, 2015, WPPI Energy's application to become a transmission-owning member of the Midcontinent Independent System Operator, Inc. (MISO) was approved by the MISO Board of Directors. On January 14, 2016, MISO's request for cost recovery on behalf of WPPI Energy for its two transmission expansion projects was approved by the Federal Energy Regulatory Commission. Effective June 1, 2016, through the MISO tariff, recovery began for investment, return on investment and operational costs for the CapX 2020 La Crosse project, and, when completed, the Badger-Coulee project, and distribution to WPPI Energy its share of these revenues. WPPI Energy recognized \$1.4 million in revenue associated with the CapX 2020 La Crosse project in 2016.

Market Conditions

The overall mild weather that occurred in 2015 was generally sustained into 2016. Market energy prices in the Midcontinent Independent System Operator, Inc. (MISO) market remained relatively low in 2016 due in part to lower natural gas prices and moderate weather conditions. These market conditions contributed to the decrease in the megawatt hour (MWh) energy sales to members and purchased power expenses in 2016 compared to 2015.

However, the increase in the production availability and dispatch characteristics of WPPI Energy's generating units resulted in higher revenue from sales to others in 2016 compared to 2015, offset by increases in fuel expense and operation and maintenance.

2015

Major Construction Activities Completed

All major construction activities were completed in 2015 on the environmental retrofit project at Boswell Unit 4 and the CapX 2020 La Crosse project. At Boswell Unit 4, an outage period from August 15, 2015 to October 23, 2015 was taken to integrate new emissions control equipment with existing systems. The CapX 2020 La Crosse project was energized from Rochester to La Crosse on September 15, 2015 which includes the entire Wisconsin portion. WPPI Energy's ownership share is entirely in the Wisconsin portion of the project. Excluding allowance for funds used during construction (AFUDC), WPPI Energy made capital expenditures in 2015 of \$23.2 million for the environmental retrofit project at Boswell Unit 4 and \$3.3 million for the CapX 2020 La Crosse project.

Weather and Market Conditions

Lack of prolonged periods of both significantly colder and warmer temperatures and overall mild weather occurred in 2015 throughout WPPI Energy's service territory and the regional market footprints in which WPPI Energy participates. The overall mild weather in 2015 contributed to the decrease in the MWh energy sales to the 51 customer-owned electric utilities served by WPPI Energy compared to 2014. Market energy prices in the MISO market were lower in 2015 compared to 2014 due in part to lower natural gas prices and more moderate weather conditions. Lower market energy prices resulted in WPPI Energy having both lower revenue from sales to others and purchased power expenses in 2015 compared to 2014.

Condensed Statements of Net Position

(in millions)

	2016	2015	2014	2016- 2015 Change	2015- 2014 Change
Assets					
Current assets	\$ 162.2	\$ 157.6	\$ 189.3	\$ 4.6	\$ (31.7)
Non-current assets	245.2	247.8	247.3	(2.6)	0.5
Capital assets, net	<u>402.4</u>	<u>406.5</u>	<u>382.9</u>	<u>(4.1)</u>	<u>23.6</u>
Total assets	809.8	811.9	819.5	(2.1)	(7.6)
Deferred Outflows of Resources	23.9	19.3	21.2	4.6	(1.9)
Liabilities					
Current liabilities	68.5	63.3	67.2	5.2	(3.9)
Non-current liabilities	7.6	5.2	4.7	2.4	0.5
Long-term debt, including unamortized premium	<u>434.4</u>	<u>457.4</u>	<u>480.1</u>	<u>(23.0)</u>	<u>(22.7)</u>
Total liabilities	510.5	525.9	552.0	(15.4)	(26.1)
Deferred Inflows of Resources	64.9	62.4	60.5	2.5	1.9
Net Position	258.3	242.9	228.2	15.4	14.7

Assets & Deferred Outflows of Resources

Total assets at the end of 2016 were \$809.8 million, which was a decrease of \$2.1 million compared to 2015. Total assets at the end of 2015 were \$811.9 million, which was a decrease of \$7.6 million compared to 2014.

Current assets increased \$4.6 million in 2016 after a decrease of \$31.7 million in 2015, as discussed below.

The increase in current assets in 2016 was driven by an increase of \$8.8 million in unrestricted cash and investments and an increase of \$2.5 million in current receivables primarily from higher receivables from non-member sales. This was offset by i) a \$3.8 million decrease in restricted cash and investments primarily from continued construction fund spend, ii) a \$2.0 million decrease in prepayments and other assets primarily associated with a prepayment in 2015 related to a capital expenditure and iii) a \$0.9 million decrease in inventory.

The decrease in current assets in 2015 was driven by a decrease of \$36.0 million in restricted cash and investments, primarily from the decrease in the current portion of the construction fund as major construction activities were completed and a decrease of \$7.1 million in current receivables primarily from lower receivables from member and non-member sales. This was offset by i) a \$5.9 million increase in unrestricted cash and investments, ii) a \$3.5 million increase in inventories primarily related to increased coal inventories at Boswell Unit 4 and iii) a \$2.0 million increase in prepayments and other assets primarily associated with a prepayment in 2015 related to a capital expenditure.

Non-current assets decreased \$2.6 million in 2016 after an increase of \$0.5 million in 2015, as discussed below.

The decrease in non-current assets in 2016 was primarily from i) a \$1.6 million reduction in non-current receivables, ii) a \$8.1 million reduction in regulatory assets and iii) a reduction of \$4.0 million and \$1.4 million, respectively, in construction funds and debt service reserve funds classified as non-current. Other reserve funds classified as non-current decreased \$0.3 million in the aggregate. This was offset by i) a \$2.5 million increase in the rate stabilization fund, ii) a \$9.0 million increase in investment in ATC and iii) a \$1.3 million increase in prepayments and other assets classified as non-current.

The increase in non-current assets in 2015 was primarily from i) a \$4.0 million increase in construction funds classified as non-current, ii) a \$1.5 million increase in the rate stabilization fund and iii) a \$3.5 million increase in investment in ATC. This was offset by i) a \$1.5 million reduction in non-current receivables, ii) a \$5.8 million reduction in regulatory assets and iii) a \$1.4 million reduction in debt service funds classified as non-current.

The balance in the rate stabilization fund increased \$2.5 million in 2016 and \$1.5 million in 2015. WPPI Energy deferred revenues to the rate stabilization fund in 2016 and 2015 (See Deferred Inflows of Resources below.) The change in the rate stabilization fund under deferred inflows of resources differs from the change in the balance in the fund due to a timing difference between when the cash is transferred from the fund and the accrual is recorded.

The balance in the renewal and replacement fund of \$17.0 million at the end of 2016 was comprised of \$8.4 million for future capital improvements and \$8.6 million for future long-term maintenance. In comparison, the balance in the renewal and replacement fund of \$17.2 million at the end of 2015 was comprised of \$9.6 million for future capital improvements and \$7.6 million for future long-term maintenance. In 2016, WPPI Energy contributed \$3.5 million to the renewal and replacement fund. The contributions were offset by \$3.7 million of renewal and replacement fund usage in 2016. In 2015, WPPI Energy contributed \$3.3 million to the renewal and replacement fund. The contributions were offset by \$3.7 million of renewal and replacement fund usage in 2015. The usage in 2016 and 2015 was primarily for capital additions at Boswell Unit 4 and ERGS Units 1 and 2.

Non-current assets include WPPI Energy's investment in ATC, which continued to increase. In 2016, investment in ATC increased \$9.0 million which included capital contributions to ATC of \$4.7 million by WPPI Energy to

meet voluntary capital calls. In 2015, investment in ATC increased \$3.5 million which included capital contributions to ATC of \$1.3 million by WPPI Energy to meet voluntary capital calls.

Non-current receivables consist of the non-current portion of member energy efficiency and renewable energy project loans and the Menasha lease. At the end of 2016 and 2015, WPPI Energy had a \$15.8 million and \$17.0 million non-current receivable associated with payments of principal and interest under the Menasha lease (see Note 11). On September 13, 2016, a joint application was filed 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 to 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 (see Note 14).

Regulatory assets decreased \$8.1 million in 2016 compared to 2015. The decrease in regulatory assets in 2016 was primarily driven by i) a reduction of \$6.8 million in future recoverable costs, ii) a reduction of \$1.0 million in unamortized bond issuance costs and iii) a \$0.3 million decrease, net of amortization, in pre-commercial and transmission-related expenses associated with the CapX 2020 La Crosse project being amortized over a five-year period that commenced in 2015 and recovered over a five-year period that commenced in 2016. Regulatory assets decreased \$5.8 million in 2015 compared to 2014. The decrease in regulatory assets in 2015 was driven by i) a reduction of \$5.2 million in future recoverable costs, ii) a reduction of \$0.4 million in unamortized bond issuance costs and iii) a \$0.5 million decrease associated with an early buyout of a member generation contract. This was offset by a \$0.3 million increase, net of amortization, in pre-commercial and transmission-related expenses associated with the CapX 2020 La Crosse project.

Capital assets net of accumulated depreciation decreased \$4.1 million in 2016 as a result of a \$12.9 million net increase in accumulated depreciation. This was offset by a \$7.0 million increase in plant and a \$1.8 million increase in construction work in progress. Capital assets net of accumulated depreciation increased \$23.6 million in 2015 as a result of an \$85.9 million increase in plant. This was offset by a \$54.7 million reduction in construction work in progress and a \$7.6 million net increase in accumulated depreciation. The changes in plant, construction work in progress and accumulated depreciation in 2015 was due primarily to the ongoing and subsequent completion of all major construction activities on the environmental retrofit project at Boswell Unit 4 and the CapX 2020 La Crosse project.

Deferred outflows of resources increased \$4.6 million in 2016 compared to 2015 due primarily to an increase in the unamortized loss on reacquired debt as a result of the issuance of the 2016 A bonds, net of reoccurring amortization. Deferred outflows of resources decreased \$1.9 million in 2015 compared to 2014 due primarily to amortization of the loss on reacquired debt.

Liabilities & Deferred Inflows of Resources

Current liabilities increased \$5.2 million in 2016 due primarily to a \$4.3 million increase in current maturities of long-term debt and a \$1.7 million increase in accounts payable and accrued liabilities primarily from higher accounts payable from purchased power, offset by a \$0.8 million decrease in restricted accrued interest payable.

Current liabilities decreased \$3.9 million in 2015 due primarily to a \$5.7 million decrease in current accounts payable and accrued liabilities primarily from lower accounts payable from purchased power, offset by a \$1.2 million increase in current maturities of long-term debt and a \$0.6 million increase in restricted accrued interest payable.

Non-current liabilities increased \$2.4 million in 2016 compared to 2015 due to a \$1.9 million increase in asset retirement obligations primarily as a result of an updated periodic site decommissioning study for the Boswell site and a \$0.5 million increase in benefits liabilities. Non-current liabilities increased \$0.5 million in 2015

compared to 2014 as a result of a \$0.4 million increase in benefits liabilities and a \$0.1 million increase in asset retirement obligations.

Long-term debt including unamortized premium decreased \$23.0 million in 2016 due to the reclassification of certain long-term debt to current maturities and the issuance of the 2016 A bonds, as described earlier. Long-term debt including unamortized premium decreased \$22.7 million in 2015 due to the reclassification of certain long-term debt to current maturities and amortization of the premium.

Deferred inflows of resources increased \$2.5 million in 2016 and \$1.9 million in 2015. The increase in deferred inflows of resources in 2016 was the result of increased reserves of \$2.5 million for rate stabilization, \$1.1 million for renewal and replacement long-term maintenance expenses and \$0.1 million for self-insurance. This was offset by a \$0.8 million reduction in unearned interest on the Menasha lease, a \$0.2 million reduction in the regulatory liability previously recorded in 2015 and a \$0.2 million reduction in the reserve for self-funded group health coverage. The increase in deferred inflows of resources in 2015 was the result of increased reserves of \$1.6 million for rate stabilization, \$0.6 million for renewal and replacement long-term maintenance expenses and \$0.2 million for self-funded group health coverage, and a \$0.2 million increase in regulatory liability. This was offset by a \$0.7 million reduction in unearned interest on the Menasha lease.

Over time, WPPI Energy has deferred revenues to the rate stabilization fund for the purpose of stabilizing future rates. WPPI Energy deferred revenues to the rate stabilization fund of \$2.5 million in 2016 and \$1.6 million in 2015. The latter completed the replenishment of the \$7.4 million total amount used in 2012 and 2011 to offset a portion of the short-term impact from entering into the Point Beach power purchase agreement in 2011.

Change in Net Position

The change in net position was \$15.4 million in 2016 and \$14.7 million in 2015. The change in net position was due primarily to revenue collected through WPPI Energy's rates to its members, which were designed to collect 1.29 times debt service in 2016, 1.32 times debt service in 2015 and 1.44 times debt service in 2014, and an increase in WPPI Energy's equity in ATC that was retained in ATC. In 2016, WPPI Energy recognized a gain of \$0.8 million related to the termination of certain forward delivery agreements in conjunction with the issuance of the 2016 A bonds (see Note 2). This increased the change in net position by \$0.8 million in 2016 compared to 2015.

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

	2016	2015	2014	2016- 2015 Change	2015- 2014 Change
Operating revenues	\$ 476.6	\$ 480.7	\$ 520.0	\$ (4.1)	\$ (39.3)
Operating expenses	453.5	456.2	497.1	(2.7)	(40.9)
Operating income	23.1	24.5	22.9	(1.4)	1.6
Non-operating revenues (expenses), net	(2.0)	(4.6)	(5.8)	2.6	1.2
Future recoverable costs	(5.7)	(5.2)	(1.7)	(0.5)	(3.5)
Change in net position	15.4	14.7	15.4	0.7	(0.7)
Net position, beginning of year	242.9	228.2	212.8	14.7	15.4
Net position, end of year	<u>\$ 258.3</u>	<u>\$ 242.9</u>	<u>\$ 228.2</u>	<u>\$ 15.4</u>	<u>\$ 14.7</u>

Referenced earlier, the higher operating revenues and operating expenses in 2014 compared to 2016 and 2015 was due primarily to the significantly colder than normal weather during the first quarter of 2014, offset in part by the cooler weather during the summer months of 2014. As discussed below, the main items impacted were i) revenue from sales to others, ii) purchased power, including transmission expenses and iii) fuel expense.

Operating Revenues

Total operating revenues in 2016 were \$476.6 million, which was a decrease of \$4.1 million or -0.9% from 2015. Total operating revenues in 2015 were \$480.7 million, which was a decrease of \$39.3 million or -7.6% from 2014. Lower total operating revenues in 2016 and 2015 compared to 2014 was driven by higher revenue from sales to others, particularly off system sales into the MISO market in 2014. Off system sales into the MISO market is also impacted by the availability and dispatch of owned generating units, including the overall level of power supply injections by WPPI Energy relative to withdrawals for its load.

Revenue from energy sales to members decreased \$10.7 million or -2.7% in 2016 from 2015 and decreased \$8.9 million or -2.2% in 2015 from 2014. The decrease in revenue in 2016 and 2015 was the result of lower average power cost (wholesale rates) charged to members and lower MWh sold to members compared to 2014.

Energy Sales to Members (MWh)

				% Change 2016- 2015	% Change 2015- 2014
	2016	2015	2014		
Energy sales to members	5,126,325	5,156,227	5,199,046	-0.6%	-0.8%

Energy sales to members were 5,126,325 MWh in 2016, 5,156,227 MWh in 2015 and 5,199,046 MWh in 2014. Energy sales to members in 2016 decreased 29,902 MWh or -0.6% from 2015. Energy sales to members in 2015 decreased 42,819 MWh or -0.8% from 2014. The decrease in energy sales to members in 2016 compared to 2015 was due primarily to the overall mild weather generally sustained into 2016. Energy sales to members were also impacted by curtailed operations and eventual closure of an industrial customer in 2016 that represented approximately 1.0% of energy sales to members in 2015. The decrease in energy sales to members in 2015 compared to 2014 was due primarily to the colder weather in the first quarter of 2014.

Revenue from sales to others increased \$7.1 million or 8.9% in 2016 from 2015 and decreased \$30.8 million or -27.9% in 2015 from 2014. Higher revenue from sales to others in 2016 compared to 2015 was primarily a result of higher off system sales into the MISO market and, beginning in June 2016, the collection of revenue associated with WPPI Energy's in-service owned transmission. WPPI Energy recognized \$1.4 million in revenue associated with the CapX 2020 La Crosse project in 2016. Lower revenue from sales to others in 2016 and 2015 compared to 2014 was due primarily to significantly higher market energy prices and higher revenues from off system sales into the MISO market in the first quarter 2014 compared to same periods in 2016 and 2015.

Operating Expenses

Operating expenses were \$453.5 million in 2016, which was a decrease of \$2.7 million or -0.6% from 2015. The decrease in operating expenses in 2016 was primarily the result of lower purchased power, offset by higher fuel expense, operation and maintenance and depreciation and amortization. Operating expenses were \$456.2 million in 2015, which was a decrease of \$40.9 million or -8.2% from 2014. The decrease in operating expenses in 2015 was primarily the result of lower purchased power and fuel expense.

Purchased power, including transmission expenses, decreased by \$12.9 million or -3.4% in 2016 compared to 2015. Purchased power, including transmission expenses, decreased by \$39.3 million or -9.4% in 2015 compared to 2014. The decreases in 2016 and 2015 were due to lower purchased power expense as a result of lower nominations and costs under WPPI Energy's formula rate purchase contracts, and lower cost of market energy purchases from the MISO and PJM Interconnection, LLC (PJM) markets. The decreases were partially offset by increased transmission-related expenses in both 2016 and 2015.

Fuel expense was \$6.5 million or 24.8% higher in 2016 compared to 2015. Higher fuel expense in 2016 was the result of higher production at WPPI Energy's owned generating units and higher delivered fuel price at Boswell Unit 4. Fuel expense was \$4.3 million or -14.0% lower in 2015 compared to 2014. Lower fuel expense in 2015 was the result of lower production at Boswell Unit 4 and lower fuel costs from expanded use of sub-bituminous coal at ERGS Units 1 and 2.

Owned Generation Production by Unit (MWh)

	2016	2015	2014	% Change 2016- 2015	% Change 2015- 2014
Boswell Unit 4	854,435	690,956	816,596	23.7%	-15.4%
ERGS Unit 1	325,544	305,961	293,774	6.4%	4.1%
ERGS Unit 2	329,792	290,408	277,573	13.6%	4.6%
ISPP	10,052	10,339	11,335	-2.8%	-8.8%
SFDL Units 1 and 4	10,532	5,542	833	90.0%	565.3%
Total	<u>1,530,355</u>	<u>1,303,206</u>	<u>1,400,111</u>	<u>17.4%</u>	<u>-6.9%</u>

Boswell Unit 4 produced 854,435 MWh in 2016, 690,956 MWh in 2015 and 816,596 MWh in 2014. The production at Boswell Unit 4 was lower in 2015 compared to 2016 and 2014 due primarily to a ten week outage in the fall of 2015 to integrate new emissions control equipment with existing systems as part of the completion of all major construction activities related to the environmental retrofit project.

ERGS Unit 1 produced 325,544 MWh in 2016, 305,961 MWh in 2015 and 293,774 MWh in 2014. ERGS Unit 2 produced 329,792 MWh in 2016, 290,408 MWh in 2015 and 277,573 MWh in 2014. ERGS Units 1 and 2 were originally designed and permitted to use bituminous coal mined from the eastern United States. However, through testing and upgrades in connection with flexible fuel and coal handling projects, ERGS Units 1 and 2 have burned blends of sub-bituminous coal ranging from 0%-100%. The production at ERGS Units 1 and 2 increased in 2016 and 2015 compared to 2014 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. Ongoing flexible fuel projects are anticipated to be at or near completion in 2017.

The Island Street Peaking Plant (ISPP) produced 10,052 MWh in 2016, 10,339 MWh in 2015 and 11,335 MWh in 2014. South Fond du Lac (SFDL) Units 1 and 4 produced a combined 10,532 MWh in 2016, 5,542 MWh in 2015 and 833 MWh in 2014. The production at ISPP and SFDL Units 1 and 4 has varied the last several years due to changes in generation dispatch patterns in the MISO market footprint.

Customer service and administrative and general expenses were \$0.3 million or 2.1% higher in 2016 compared to 2015 due primarily to increases in salaries and benefits and software licensing and maintenance. Customer service and administrative and general expenses were \$0.8 million or 5.2% higher in 2015 compared to 2014 due

primarily to increases in salaries and benefits and spending on energy incentive programs. Energy incentive program spending can vary between years due to differences in timing and scope of program-eligible projects.

Non-Operating Revenues (Expenses), Net

Net non-operating expenses of \$2.0 million in 2016 were \$2.6 million lower than net non-operating expenses of \$4.6 million in 2015. The decrease in net non-operating expenses in 2016 compared to 2015 was due primarily to higher investment income and equity earnings in ATC, an increase in fair value of investments and the aforementioned gain from the termination of certain forward delivery agreements in conjunction with the issuance of the 2016 A bonds.

Net non-operating expenses of \$4.6 million in 2015 were \$1.2 million lower than net non-operating expenses of \$5.8 million in 2014. The decrease in net non-operating expenses in 2015 compared to 2014 was the result of lower non-operating expenses of \$3.2 million due to lower interest expense and higher AFUDC and amortization of debt related costs. This was offset by the \$0.2 million regulatory debit and lower non-operating revenues of \$1.8 million due to lower investment income and equity earnings in ATC and a reduction in fair value of investments.

WPPI Energy's equity in earnings of ATC increased \$0.4 million or 16.1% in 2016 from 2015 and decreased \$0.5 million or -16.0% in 2015 from 2014. Earnings retained by ATC ultimately increase WPPI Energy's net position. WPPI Energy has historically received approximately 67% of ATC earnings as cash dividends and 33% remains as equity invested in ATC. ATC earnings distributed as cash dividends are recorded under investment income and used to lower WPPI Energy's rates to members.

WPPI Energy's investment income and equity earnings of ATC were impacted by ATC's recording of a regulatory liability for potential refunds to transmission customers as a result of two FERC complaints (see Note 13). Certain MISO transmission owners, including ATC, issued refunds to transmission customers, including WPPI Energy, related to the November 12, 2013 complaint in January and February of 2017 (see Note 14). While WPPI Energy cannot predict the outcome of the February 12, 2015 complaint, 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 also reflect these reduced base ROEs.

Interest expense decreased \$1.5 million or -7.0% in 2016 compared to 2015. Interest expense decreased \$1.3 million or -5.7% in 2015 compared to 2014. The decreases in interest expense were the result of refunding existing debt through the issuance of the 2016 A bonds and the Power Supply System Revenue Bonds, Series 2014 A, and the annual payments of principal. The changes in interest expense and AFUDC generally offset in 2016 and 2015.

Future Recoverable Costs

Future recoverable costs equaled \$(5.7) million in 2016, a change of \$(0.5) million from 2015. Future recoverable costs equaled \$(5.2) million in 2015, a change of \$(3.5) million from 2014. 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. These costs will be recovered in future periods when the principal payments exceed the related depreciation and amortization.

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, 2016 and 2015

	2016	2015
Assets		
Current assets		
Unrestricted cash and investments	\$ 74,627,911	\$ 65,869,059
Restricted cash and investments	35,052,968	38,852,127
Receivables	38,534,769	36,030,168
Inventories	12,424,605	13,304,108
Prepayments and other assets	1,529,087	3,544,935
Total current assets	162,169,340	157,600,397
Non-current assets		
Unrestricted cash and investments	70,835,689	68,717,158
Restricted cash and investments	31,747,469	37,112,628
Investment in ATC	114,214,441	105,211,536
Receivables from members	19,257,683	20,871,952
Regulatory assets	7,585,869	15,660,110
Prepayments and other assets	1,527,022	249,729
Total non-current assets	245,168,173	247,823,113
Capital assets		
Electric plant and equipment	574,838,082	567,765,472
Accumulated depreciation and amortization	(177,034,271)	(164,163,102)
Electric plant and equipment, net	397,803,811	403,602,370
Land	240,922	242,008
Construction work in progress	4,412,677	2,641,828
Total capital assets	402,457,410	406,486,206
Total assets	809,794,923	811,909,716
Deferred Outflows of Resources		
Unamortized loss on reacquired debt	22,458,440	17,693,782
Sale-leaseback acquisition premium	1,380,866	1,527,872
Pension	52,350	56,638
Total deferred outflows of resources	23,891,656	19,278,292

WPPI Energy
Statements of Net Position (cont'd)
December 31, 2016 and 2015

	2016	2015
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 34,926,448	\$ 33,253,355
Restricted current maturities of long-term debt	23,440,000	19,165,000
Restricted accrued interest	10,176,034	10,912,781
Total current liabilities	68,542,482	63,331,136
Non-current liabilities		
Accounts payable	17,000	34,000
Asset retirement obligations	5,275,119	3,439,530
Benefits liabilities	2,267,279	1,763,519
Total non-current liabilities	7,559,398	5,237,049
Long-term debt		
Revenue bonds, net of unamortized premium	434,364,808	457,357,554
Total liabilities	510,466,688	525,925,739
Deferred Inflows of Resources		
Self-insurance reserve	4,812,598	4,751,286
Long-term maintenance reserve	8,648,115	7,592,025
Rate stabilization	45,488,036	42,988,036
Self-funded group health coverage reserve	31,571	190,170
Regulatory liability	13,359	176,982
Unearned interest on Menasha lease	5,928,140	6,663,101
Total deferred inflows of resources	64,921,819	62,361,600
Net Position		
Net investment in capital assets	(21,767,163)	(32,430,098)
Restricted		
Debt service	11,720,000	12,809,388
Debt service reserve	31,746,469	33,122,871
Other	1,000	1,000
Unrestricted	236,597,766	229,397,508
Total net position	258,298,072	242,900,669

Note: Some 2015 amounts were reclassified to conform to the 2016 presentation

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WPPI Energy
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues		
Sales to members	\$ 390,775,059	\$ 401,508,796
Sales to others	86,675,063	79,563,982
Rate stabilization	(2,500,000)	(1,600,000)
Other income	1,637,642	1,225,789
Total operating revenues	476,587,764	480,698,567
Operating expenses		
Purchased power	365,477,213	378,425,984
Fuel expense	32,940,390	26,392,861
Operation and maintenance	15,500,385	14,091,657
Customer service and administrative and general	16,479,371	16,140,524
Depreciation and amortization	16,276,251	14,430,948
Taxes	6,829,195	6,689,171
Total operating expenses	453,502,805	456,171,145
Operating income	23,084,959	24,527,422
Non-operating revenues (expenses)		
Investment income	8,992,665	7,906,651
Equity in earnings of ATC	3,112,175	2,680,084
Allowance for funds used during construction	3,114,833	4,574,367
Net decrease in fair value of investments	(55,276)	(460,444)
Gain on sale of allowances	1,944,625	1,906,718
Gain on disposition of investments	787,000	-
Interest expense	(20,696,090)	(22,247,220)
Amortization of debt-related costs	1,225,683	1,326,234
Regulatory debit	-	(176,982)
Other	(381,812)	(66,916)
Total non-operating revenues (expenses), net	(1,956,197)	(4,557,508)
Change in net position before future recoverable costs	21,128,762	19,969,914
Future recoverable costs	(5,731,359)	(5,234,500)
Change in net position	15,397,403	14,735,414
Net position, beginning of year	242,900,669	228,165,255
Net position, end of year	\$ 258,298,072	\$ 242,900,669

WPPI Energy
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows provided by operating activities		
Cash receipts from members and others	\$ 478,495,627	\$ 491,555,384
Cash payments for purchased power	(364,413,450)	(382,962,885)
Cash payments for fuel	(31,738,774)	(30,212,733)
Cash payments for operations and maintenance	(11,390,943)	(10,950,658)
Cash payments for payroll and ad valorem taxes	(6,825,628)	(6,692,177)
Cash payments to employees	(9,130,600)	(8,707,667)
Cash payments for customer service & adm. and general	(9,713,810)	(9,381,699)
Net cash provided by operating activities	45,282,422	42,647,565
Cash flows provided by non-capital financing activities		
Cash receipts from outside parties	2,558,129	1,951,540
Cash payments to outside parties	(909,713)	(504,577)
Net cash provided by non-capital financing activities	1,648,416	1,446,963
Cash flows provided by investing activities		
Investments purchased	(103,837,867)	(132,528,348)
Investment in ATC	(4,680,688)	(1,337,340)
Investments sold	108,395,695	157,907,513
Investment income	2,609,330	2,854,436
Cash distributions received from ATC	5,020,974	5,618,262
Net cash provided by investing activities	7,507,444	32,514,523
Cash flows used in capital and related financing activities		
Acquisition and construction of capital assets	(6,360,067)	(35,826,039)
Principal paid	(19,165,000)	(17,965,000)
Debt issuance costs and escrow payment	(1,093,512)	-
Interest paid	(21,432,837)	(21,665,082)
Net cash used in capital and related financing activities	(48,051,416)	(75,456,121)
Change in cash and cash equivalents	6,386,866	1,152,930
Cash and cash equivalents, beginning of year	101,817,787	100,664,857
Cash and cash equivalents, end of year	\$ 108,204,653	\$ 101,817,787

WPPI Energy
Statements of Cash Flows (cont'd)
Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 23,084,959	\$ 24,527,422
Depreciation and amortization	16,276,251	14,430,948
Administrative and general, capitalized salaries and fringes	-	(4,898)
Other non-operating revenues (expenses), net	1,860,053	1,820,679
Changes in assets, liabilities, deferred outflows and inflows of resources		
Receivables	(2,221,686)	7,035,024
Inventories	879,503	(3,521,680)
Prepayments and other assets	256,432	(294,985)
Regulatory asset	304,660	844,079
Non-current prepayments and other assets	(1,277,293)	405,467
Pension	4,288	(56,638)
Current accounts payable and accrued liabilities	2,231,003	(5,244,657)
Non-current accounts payable	(17,000)	(17,000)
Benefits liabilities	503,760	370,089
Long-term maintenance reserve	1,056,090	563,545
Rate stabilization	2,500,000	1,600,000
Self-funded group health coverage reserve	(158,598)	190,170
Net cash provided by operating activities	\$ 45,282,422	\$ 42,647,565
Reconciliation of cash and cash equivalents to the Statements of Net Position		
Current assets		
Unrestricted cash and investments	\$ 74,627,911	\$ 65,869,059
Restricted cash and investments	35,052,968	38,852,127
Non-current assets		
Unrestricted cash and investments	70,835,689	68,717,158
Restricted cash and investments	31,747,469	37,112,628
Total cash and investments	212,264,037	210,550,972
Less: long-term investments	104,059,384	108,733,185
Total cash and cash equivalents	\$ 108,204,653	\$ 101,817,787

Note: Some 2015 amounts were reclassified to conform to the 2016 presentation

WPPI Energy
Statements of Cash Flows (cont'd)
Years Ended December 31, 2016 and 2015

Noncash investing, capital and related-financing activities

During 2016 and 2015, WPPI Energy recognized \$3,112,175 and \$2,680,084 of equity earnings in ATC.

During 2016 and 2015, WPPI Energy recognized \$0 and \$110,412 of accretion of long-term investments.

During 2016 and 2015, WPPI Energy recognized \$55,276 and \$460,444 of decreases in fair value of investments.

During 2016 and 2015, WPPI Energy recognized \$1,648,811 and \$0 of increases in asset retirement obligation related to an updated periodic site decommissioning study.

During 2016, WPPI Energy issued revenue bonds to refund debt issued in 2008. Bond proceeds of \$89,087,011 and additional cash funds of \$2,140,156 were deposited immediately into an irrevocable trust for the defeasance of \$82,170,000 of revenue bond principal and \$10,467,219 of interest.

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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, 2016 and 2015, respectively.

WPPI Energy sells wholesale electricity to its members under long-term contracts. As of December 31, 2016, 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 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 varying power purchases from other entities including the Midcontinent Independent System Operator, Inc. (MISO) and PJM Interconnection, LLC (PJM) markets and various renewable energy projects 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, and 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 (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) future recoverable costs to be recovered in future periods when the principal amounts exceed the related depreciation and amortization, iii) costs associated with a settlement agreement recognized in 2013 that were recovered in future periods for rate-making purposes and iv) 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:

	2016	2015
CapX 2020 La Crosse project	\$ 882,667	\$ 1,216,900
Future recoverable costs	3,447,034	10,195,448
Settlement costs	20,874	31,312
Unamortized bond issuance costs	3,235,294	4,216,450
	<u>\$ 7,585,869</u>	<u>\$ 15,660,110</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.

(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) member generation contracts entered into and prepaid in 2012 and 2016, ii) prepaid capital costs at a generating unit, iii) prepaid operation and maintenance costs at a generating unit, iv) other prepaid general operating costs, such as insurance and v) upfront payments for community-based renewable energy purchased from members and their customers.

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

	<u>2016</u>	<u>2015</u>
Capacity contract	\$ 1,500,000	\$ 293,076
Capital costs	-	1,759,416
Operation and maintenance costs	121,892	236,781
Other general operating costs	1,184,488	1,197,395
Solar purchases	<u>249,729</u>	<u>307,996</u>
	<u>\$ 3,056,109</u>	<u>\$ 3,794,664</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:

	<u>2016</u>	<u>2015</u>
Current	\$ 1,529,087	\$ 3,544,935
Non-current	<u>1,527,022</u>	<u>249,729</u>
	<u>\$ 3,056,109</u>	<u>\$ 3,794,664</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:

	<u>2016</u>	<u>2015</u>
Sales, members	\$ 31,310,649	\$ 31,173,437
Sales, non-members	4,696,447	2,621,280
Notes, members	1,963,895	1,992,051
Unrestricted interest	495,274	208,718
Restricted interest	<u>68,504</u>	<u>34,682</u>
	<u>\$ 38,534,769</u>	<u>\$ 36,030,168</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 and the Menasha asset purchase and lease (see Note 11).

(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, 2016 and 2015, WPPI Energy's Board of Directors approved rates that were expected to yield net revenues 1.29 and 1.32 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, 2016 and 2015, WPPI Energy did not utilize the Rate Stabilization Fund and deferred revenues of \$2,500,000 and \$1,600,000, respectively.

(r) **Owned Generation**

WPPI Energy has a mix of owned generation used to supply the electric power requirements of its members. As of December 31, 2016, WPPI Energy had owned generation of approximately 432 MW 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 Units 1 and 4 are two of four combustion turbine units located on a site owned by Alliant Energy (Alliant). Alliant 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 10% 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>2016</u>	<u>2015</u>
Electric plant and equipment	\$ 15,945,718	\$ 16,071,451
Accumulated depreciation and amortization	<u>(606,219)</u>	<u>(200,893)</u>
Electric plant and equipment, net	<u>\$ 15,339,499</u>	<u>\$ 15,870,558</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 will begin north of La Crosse where it will interconnect with the CapX 2020 La Crosse project and run 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. Construction commenced in 2016 and is expected to be completed and in-service in 2018. There was no Badger-Coulee project electric plant and equipment, net balance at December 31, 2016 and 2015, respectively.

(t) **Purchased Power**

WPPI Energy has purchased power contracts of varying durations with a number of suppliers used to meet a portion of the electric power requirements of its members. As of December 31, 2016, WPPI Energy purchased a total of approximately 609 MW from WEPCO, Wisconsin Power & Light (WPL), Wisconsin Public Service (WPS), NextEra Energy Point Beach, LLC (NextEra), Dynegy Marketing and Trade, LLC (Dynegy) and member generation under contract to WPPI Energy.

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. The purchases are substantially based on terms and conditions of preexisting FERC approved agreements between WPPI Energy and WEPCO, including a Fourth Revised Power Sales Agreement dated May 1, 2007 (2007 PSA) and a Formula Rate Wholesale Sales Tariff Service Agreement dated September 17, 2008 (2008 FRT). WPPI Energy and WEPCO agreed to terminate the 2007 PSA and 2008 FRT effective as of the end of December 31, 2015.

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 30 MW for the contract year commencing June 1, 2014 and 0 MW for the contract years commencing June 1, 2015 and 2016, respectively. WPPI Energy has nominated to purchase 0 MW for the contract years commencing June 1, 2017, 2018 and 2019, 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, 2017 and 2018. WPPI Energy is permitted but not obligated to schedule energy up to the nominated demand.

WPL Power Supply Agreement. WPPI Energy purchases firm partial requirements service from WPL under a Second Revised Power Supply Agreement dated February 4, 2008. The term of the contract runs through May 31, 2017. WPPI Energy is charged for service under WPL's formula rate partial requirements tariff. WPPI Energy purchased 145 MW for the contract year commencing June 1, 2014, 135 MW for the contract year commencing June 1, 2015 and 125 MW for the contract year commencing June 1, 2016.

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 under the contract. The initial term for the 100 MW portion of the contract runs through May 31, 2021 with the 50 MW portion of the contract having an initial term running through May 31, 2029.

Point Beach Purchase Power Agreements. 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 contract has a term that 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 contract 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 contract with NextEra under a Purchase Power Agreement with Central Minnesota Power Agency and Services dated August 8, 2012.

Kendall County Unit 3. WPPI Energy purchases 85 MW of unit contingent capacity and energy from Kendall County Generating Facility Unit 3 under a Long-Term Capacity and Energy Purchase Contract with Dynergy. Kendall County Generating Facility Unit 3 is a 280 MW gas-fired combined-cycle plant located near Joliet, Illinois. The term of the contract runs through September 16, 2017.

Member Generation under Contract. Member generation under contract to WPPI Energy consists of a number of small generating units, totaling approximately 32 MW and 44 MW of capacity in 2016 and 2015, respectively.

Nelson Energy Center. WPPI will purchase 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 Invenenergy Nelson LLC dated March 12, 2014. Nelson Energy Center is a 575 MW gas-fired combined-cycle plant located near Rock Falls, Illinois. Delivery under this contract commences on June 1, 2017 and has an initial term that runs through June 1, 2037.

(u) ***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.

(v) ***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.

(w) ***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.

(x) ***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.

(y) ***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 Defined Benefit Plan of WPPI Energy and additions to/deductions from its fiduciary net position have been determined on the same basis as they are reported by the Defined Benefit Plan of WPPI Energy. Benefit payments are recognized when due and payable in accordance with the benefit terms.

(z) ***Recently Adopted Accounting Pronouncements***

Effective January 1, 2015, WPPI Energy adopted GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68). GASB 68 replaced the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* as they related to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. GASB 68 revises recognition, measurement and disclosure requirements for employers that provide their employees with pensions. See Note 9(c) and additional schedules presented in the Required Supplemental Information section.

Effective January 1, 2015, WPPI Energy also adopted GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. There was no impact to WPPI Energy's financial statements for the years presented as a result of this adoption.

Effective January 1, 2016, WPPI Energy adopted GASB 72, *Fair Value Measurement and Applications*, GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, GASB 77, *Tax Abatement Disclosures*, GASB No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* and GASB 79, *Certain External Investment Pools and Pool Participants*.

(aa) ***Recently Issued Accounting Pronouncements***

GASB has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68 and No. 73*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*. Application of these recently issued accounting pronouncements, when effective, may restate portions of these financial statements.

(bb) ***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:

<u>Fund</u>	<u>Held by</u>	<u>Purpose</u>
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.

	<u>2016</u>	<u>2015</u>
Current		
Unrestricted cash and investments		
Petty cash	\$ 10	\$ 10
Working capital	74,075,560	65,471,424
Post retirement medical fund	552,341	397,625
Total unrestricted cash and investments	<u>74,627,911</u>	<u>65,869,059</u>
Restricted cash and investments		
Construction funds	13,156,933	15,129,958
Debt service funds	21,896,035	23,722,169
Total current restricted cash and investments	<u>35,052,968</u>	<u>38,852,127</u>
Total current	109,680,879	104,721,186
Non-current		
Unrestricted cash and investments		
Renewal and replacement fund	16,982,086	17,227,131
Self-insurance fund	4,727,139	4,671,471
Rate stabilization fund	45,328,852	42,844,913
Decommissioning fund	3,248,872	3,224,903
Post retirement medical fund	548,000	748,000
Alliance stock	740	740
Total non-current unrestricted cash and investments	<u>70,835,689</u>	<u>68,717,158</u>
Restricted cash & investments		
Debt service reserve funds	31,746,469	33,122,871
Construction funds	-	3,988,757
Collateral accounts	1,000	1,000
Total non-current restricted cash and investments	<u>31,747,469</u>	<u>37,112,628</u>
Investment in ATC	<u>114,214,441</u>	<u>105,211,536</u>
Total non-current	<u>216,797,599</u>	<u>211,041,322</u>
Total cash and investments	<u>\$ 326,478,478</u>	<u>\$ 315,762,508</u>
Current & non-current cash and investments	\$ 212,264,037	\$ 210,550,972
Investment in ATC	114,214,441	105,211,536
Total cash and investments	<u>\$ 326,478,478</u>	<u>\$ 315,762,508</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 \$957,495 (\$690,706 in book balances) at December 31, 2016 and \$740,204 (\$318,242 in book balances) at December 31, 2015. WPPI Energy also holds collateral accounts with MISO (\$500) and PJM (\$500). With the exception of WPPI Energy's investment in the LGIP, all cash and investments held as of December 31, 2016 and 2015 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 within 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 \$10,011,471 in the LGIP which is included within WPPI Energy's cash and investments as of December 31, 2016.

- **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, 2016 and 2015, 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	2016	2015
Money market mutual funds	AAAm	Aaa-mf	\$ 78,409,988	\$ 100,475,303
U.S. treasury/agency securities	AA+	Aaa	82,330,367	66,040,232
Municipal bonds	AA	Aa3	2,980,706	-
Municipal bonds	AA-	Aa3	1,521,738	-
Corporate bonds	AAA	Aaa	508,073	1,497,615
Corporate bonds	AA+	Aaa	1,499,640	-
Corporate bonds	AA+	Aa1	-	727,744
Corporate bonds	AA	Aa1	763,422	1,140,800
Corporate bonds	AA	Aa2	303,944	-
Corporate bonds	AA	A1	770,280	-
Corporate bonds	AA-	Aa1	1,497,125	1,492,265
Corporate bonds	AA-	Aa2	2,895,598	2,984,325
Corporate bonds	AA-	Aa3	4,054,516	4,785,745
Corporate bonds	AA-	A1	1,298,911	1,300,413
Corporate bonds	A+	Aa2	-	1,495,290
Corporate bonds	A+	Aa3	1,993,640	1,122,514
Corporate bonds	A+	A1	1,874,812	1,116,754
Corporate bonds	A	A1	2,063,238	3,613,396
Corporate bonds	A	A2	2,996,400	4,010,640
Corporate bonds	A-	A2	851,079	1,278,446
Corporate bonds	A-	A3	1,099,901	1,094,665
Corporate bonds	BBB+	A3	771,923	-
Corporate bonds	BBB+	Baa1	-	696,001
Bank deposits, certificates of deposit, commercial paper, Alliance stock & LGIP	n/a	n/a	21,778,736	15,678,824
			<u>\$ 212,264,037</u>	<u>\$ 210,550,972</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, 2016 and 2015. WPPI Energy is exposed to risk of nonperformance if the counterparties default or if the forward delivery agreements are terminated. During 2016, certain forward delivery agreements below were terminated in conjunction with the issuance of the 2016 A bonds (see Note 6).

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

	Interest Rate	Termination Date	2016	2015
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
Citigroup Financial Products Inc.	3.893%	7/1/2018	-	5,053,791
Wells Fargo Bank, N.A.	4.690%	7/1/2021	-	2,818,385
Wells Fargo Bank, N.A.	4.200%	7/1/2023	-	1,363,124
			<u>\$ 8,092,763</u>	<u>\$ 17,328,063</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, 2016, 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	\$ 78,409,988	\$ 78,409,988	\$ -	\$ -
U.S. treasury/agency securities	82,330,367	32,402,015	49,928,352	-
Municipal bonds	4,502,444	-	4,502,444	-
Corporate bonds	25,242,502	2,673,443	22,569,059	-
Bank deposits, certificates of deposit, commercial paper, Alliance stock & LGIP	21,778,736	18,204,786	3,573,210	740
	<u>\$212,264,037</u>	<u>\$131,690,232</u>	<u>\$ 80,573,065</u>	<u>\$ 740</u>

As of December 31, 2015, 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	\$100,475,303	\$100,475,303	\$ -	\$ -
U.S. treasury/agency securities	66,040,232	11,303,259	54,736,973	-
Corporate bonds	28,356,613	-	28,356,613	-
Bank deposits, certificates of deposit, commercial paper & Alliance stock	15,678,824	4,635,142	11,042,942	740
	<u>\$210,550,972</u>	<u>\$116,413,704</u>	<u>\$ 94,136,528</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, 2016, 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	\$ 78,409,988	\$ -	\$ 78,409,988	\$ -
U.S. treasury securities	58,123,943	58,123,943	-	-
U.S. agency securities	24,206,424	-	24,206,424	-
Municipal bonds	4,502,444	-	4,502,444	-
Corporate bonds	25,242,502	-	25,242,502	-
Negotiable certificates of deposit	9,280,181	-	9,280,181	-
Commercial paper	694,288	-	694,288	-
Total investments at fair value	<u>\$200,459,770</u>	<u>\$ 58,123,943</u>	<u>\$142,335,827</u>	<u>\$ -</u>

As of December 31, 2015, 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	\$100,475,303	\$ -	\$100,475,303	\$ -
U.S. treasury securities	58,628,156	58,628,156	-	-
U.S. agency securities	7,412,076	-	7,412,076	-
Corporate bonds	28,356,613	-	28,356,613	-
Negotiable certificates of deposit	11,694,694	-	11,694,694	-
Commercial paper	2,518,513	-	2,518,513	-
Total investments at fair value	<u>\$209,085,355</u>	<u>\$ 58,628,156</u>	<u>\$150,457,199</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, 2016 and 2015. 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, 2016, WPPI Energy had outstanding commitments to fund ATC of \$2,674,679. The amount was paid in January, 2017.

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

	2016	2015
Operating revenues	\$ 650.8	\$ 615.8
Operating expenses	(322.5)	(319.3)
Other income, net	3.2	1.2
Interest expense, net	(98.8)	(97.3)
Earnings before members' income taxes	<u>\$ 232.7</u>	<u>\$ 200.4</u>
Current assets	\$ 75.8	\$ 80.5
Net property, plant and equipment	4,268.5	3,907.5
Regulatory and other assets	44.4	40.8
Total assets	<u>\$ 4,388.7</u>	<u>\$ 4,028.8</u>
Current liabilities	\$ 495.1	\$ 330.3
Long-term debt	1,865.3	1,790.7
Regulatory and other liabilities	271.5	245.0
Members' equity	1,756.8	1,662.8
Total liabilities and capitalization	<u>\$ 4,388.7</u>	<u>\$ 4,028.8</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.

(4) Capital Assets

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

2016	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Depreciable assets					
Electric plant and equipment	\$ 567,765,472	\$ 1,823,691	\$ (3,526,141)	\$ 8,775,060	\$ 574,838,082
Accumulated depreciation and amortization	(164,163,102)	(16,089,473)	3,218,304	-	(177,034,271)
Electric plant and equipment, net	403,602,370	(14,265,782)	(307,837)	8,775,060	397,803,811
Nondepreciable assets					
Land	242,008	-	-	(1,086)	240,922
Construction work in progress	2,641,828	10,544,823	-	(8,773,974)	4,412,677
Total capital assets	\$ 406,486,206	\$ (3,720,959)	\$ (307,837)	\$ -	\$ 402,457,410

2015	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Depreciable assets					
Electric plant and equipment	\$ 481,846,747	\$ 1,294,504	\$ (6,690,443)	\$ 91,314,664	\$ 567,765,472
Accumulated depreciation and amortization	(156,519,654)	(14,291,374)	6,647,926	-	(164,163,102)
Electric plant and equipment, net	325,327,093	(12,996,870)	(42,517)	91,314,664	403,602,370
Nondepreciable assets					
Land	242,008	-	-	-	242,008
Construction work in progress	57,332,394	36,688,526	-	(91,379,092)	2,641,828
Total capital assets	\$ 382,901,495	\$ 23,691,656	\$ (42,517)	\$ (64,428)	\$ 406,486,206

At December 31, 2016, construction work in progress consisted primarily of construction at Boswell Unit 4 related to various capital projects and the Badger-Coulee project.

Construction on the environmental retrofit project at Boswell Unit 4 commenced in June, 2013. Construction on the CapX 2020 La Crosse project commenced in June, 2013 in Wisconsin. All major construction activities related to both projects were completed and transferred from construction work in progress in 2015.

(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. An updated periodic site decommissioning study for the Boswell site was used in 2016.

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

	2016	2015
Beginning of year	\$ 3,439,530	\$ 3,299,956
Accretion	186,778	139,574
Cash flow revisions	1,648,811	-
End of year	<u>\$ 5,275,119</u>	<u>\$ 3,439,530</u>

(6) Long-Term Debt

During 2016, WPPI issued \$75,555,000 of Power Supply System Revenue Bonds, Series 2016 A bonds (2016 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, 2019 through July 1, 2037 with a total par amount of \$82,170,000 were refunded as an advance refunding with the issuance of the 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 Refunded Bonds. The 2008 A Refunded Bonds plus accrued interest are to be redeemed on July 1, 2018. At December 31, 2016, the par amount of the 2008 A Refunded Bonds outstanding and considered defeased was \$82,170,000 and the balance of the escrow account was \$89,250,873. The U.S. government securities required to be held in the escrow account was carried at cost at December 31, 2016.

The advance refunding portion of the 2008 A Refunded Bonds reduced total debt service payments between the old and the new debt by \$14,338,241, resulting in an economic gain of \$9,829,048. A loss on reacquired debt in the amount of \$7,063,084 was recognized as a deferred outflow of resources and will be amortized over the repayment period of the 2016 A bonds.

Proceeds of the Power Supply System Revenue Bonds, Series 2014 A bonds (2014 A bonds) along with certain other funds totaling \$96,389,403 were irrevocably escrowed to make the remaining principal and interest payments on the Power Supply System Revenue Bonds, Series 2005 A bonds (2005 A Remaining Refunded Bonds). On July 1, 2015, the 2005 A Remaining Refunded Bonds were redeemed and a final interest payment was made, resulting in no remaining funds in the in the escrow account established with the issuance of 2014 A bonds.

Proceeds of the Power Supply System Revenue Bonds, Series 2013 A bonds (2013 A bonds) along with certain other funds totaling \$45,611,682 were irrevocably escrowed to make the remaining principal and interest payments on the Power Supply System Revenue Bonds, Series 2005 A bonds (2005 A Refunded Bonds). On July 1, 2015, the 2005 A Refunded Bonds were redeemed and a final interest payment was

made, resulting in no remaining funds in the in the escrow account established with the issuance of 2013 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>2016</u>	<u>2015</u>
2008 Series A 5.00% to 5.25%		
Due July 1, 2015 - 2037	\$ 94,540,000	\$ 191,725,000
2013 Series A 3.00% to 5.00%		
Due July 1, 2015 - 2037	174,905,000	179,055,000
2014 Series A 2.00% to 5.00%		
Due July 1, 2015 - 2037	66,410,000	66,410,000
2016 Series A 3.00% to 5.00%		
Due July 1, 2019 - 2037	<u>75,555,000</u>	<u>-</u>
Total revenue bonds outstanding	411,410,000	437,190,000
Current maturities	(23,440,000)	(19,165,000)
Unamortized premium	<u>46,394,808</u>	<u>39,332,554</u>
Revenue bonds, net of unamortized premium	<u>\$ 434,364,808</u>	<u>\$ 457,357,554</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
2017	23,440,000	20,352,069	43,792,069
2018	24,365,000	19,257,569	43,622,569
2019	25,580,000	18,039,319	43,619,319
2020	26,695,000	16,741,744	43,436,744
2021	18,075,000	15,387,581	33,462,581
2022-2026	84,430,000	63,826,656	148,256,656
2027-2031	90,960,000	42,645,269	133,605,269
2032-2036	102,895,000	18,779,343	121,674,343
2037	14,970,000	705,256	15,675,256
Total	<u>\$ 411,410,000</u>	<u>\$ 215,734,806</u>	<u>\$ 627,144,806</u>

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

2016	Beginning Balance	Additions	Reductions	Ending Balance
Long-term debt				
Total bonds outstanding	\$ 437,190,000	\$ 75,555,000	\$ (101,335,000)	\$ 411,410,000
Less: current maturities	19,165,000	23,440,000	(19,165,000)	23,440,000
Add: unamortized premium	39,332,554	14,251,013	(7,188,759)	46,394,808
Revenue bonds, net of unamortized premium	<u>\$ 457,357,554</u>	<u>\$ 66,366,013</u>	<u>\$ (89,358,759)</u>	<u>\$ 434,364,808</u>
Non-current liabilities				
Accounts payable	\$ 34,000	\$ -	\$ (17,000)	\$ 17,000
Asset retirement obligations	3,439,530	1,835,589	-	5,275,119
Benefits liabilities	1,763,519	503,760	-	2,267,279
Total non-current liabilities	<u>\$ 5,237,049</u>	<u>\$ 2,339,349</u>	<u>\$ (17,000)</u>	<u>\$ 7,559,398</u>
2015	Beginning Balance	Additions	Reductions	Ending Balance
Long-term debt				
Total bonds outstanding	\$ 455,155,000	\$ -	\$ (17,965,000)	\$ 437,190,000
Less: current maturities	17,965,000	19,165,000	(17,965,000)	19,165,000
Add: unamortized premium	42,911,385	-	(3,578,831)	39,332,554
Revenue bonds, net of unamortized premium	<u>\$ 480,101,385</u>	<u>\$ (19,165,000)</u>	<u>\$ (3,578,831)</u>	<u>\$ 457,357,554</u>
Non-current liabilities				
Accounts payable	\$ 51,000	\$ -	\$ (17,000)	\$ 34,000
Asset retirement obligations	3,299,956	139,574	-	3,439,530
Benefits liabilities	1,393,429	585,600	(215,510)	1,763,519
Total non-current liabilities	<u>\$ 4,744,385</u>	<u>\$ 725,174</u>	<u>\$ (232,510)</u>	<u>\$ 5,237,049</u>

(7) Available Financing

Effective February 1, 2016, WPPI Energy amended and restated its credit agreement with JPMorgan Chase Bank, N.A. (JPMorgan) to extend the credit agreement and the letter of credit commitment 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, 2016, 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, 2016 and 2015, 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 \$77,778,411 and \$82,026,883, or approximately 16.3% and 17.1%, of total operating revenues for the years ended December 31, 2016 and 2015, respectively.

(9) Employee Benefits

(a) Retirement Plan

WPPI Energy maintained a Simplified Employee Pension (SEP) Plan that covered all of its employees and was funded through contributions by WPPI Energy. Total contributions to the SEP Plan for the years ended December 31, 2016 and 2015 were \$947,052 and \$907,374, respectively. See Note 14 for related subsequent event.

(b) Retention Plan

WPPI Energy maintains an employee retention plan with payment obligations out until 2019. 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, 2016 and 2015 were \$229,291 and \$269,641, respectively.

(c) Defined Benefit Plan

On January 1, 2007, WPPI Energy adopted the Defined Benefit Plan of WPPI Energy covering certain senior executives. It is a single-employer plan where the employer contributes funds to the plan. In addition, a trust was formed to control and manage the plan's assets. WPPI Energy is the plan administrator and does not charge the plan for services.

The plan and amendments to the plan define the contributions for each participant. WPPI Energy's Executive Committee serves as the governing board of the plan; approving amendments and new entrants to the plan and defining the amount of plan contributions. The contributions accrue monthly interest at 0.5%, except for contributions made in 2008 which accrue monthly at 0.2083%, and contributions made in 2009 and 2010 which accrue monthly at 0.25%. No contributions were made to the plan for the years ending December 31, 2016 and 2015. Participants are 100% vested in their accrued benefit at all times and are generally eligible for payment of the accrued benefit on the January 2 following the participant's normal retirement date subject to the provisions for early retirement, disability benefits and death benefits. During 2016, WPPI Energy purchased an allocated insurance contract. The obligation for the payment of benefits covered by the allocated insurance contract was transferred to an insurance company and is excluded from the plan's assets and liabilities, respectively. For the year ended December 31, 2016, the amount of benefit payments attributable to the purchase of the allocated insurance contract was \$479,310. The plan has two inactive employees currently receiving benefits under a fixed payment schedule, no active employees and is closed to new entrants. The fixed payments under the plan will be made through December, 2020 and December, 2021, respectively.

The financial statements for the WPPI Defined Benefit Plan Trust are prepared on the accrual basis of accounting and include the following: The Statements of Fiduciary Net Position provides information about the nature and amount of assets, liabilities and deferred outflows and inflows of resources as of the end of the year. The Statements of Changes in Fiduciary Net Position reports and classifies additions to, deductions from and net increase (or decrease) in fiduciary net position for the year. The financial statements for the WPPI Defined Benefit Plan Trust are immaterial and not presented, as determined by Management. Additional schedules are presented in the Required Supplemental Information section.

The investment policies employ an approach that uses a mix of equity and debt securities along with other investments to target a return that exceeds the interest rate that accrues on the contributions to the plan. WPPI Energy’s Executive Committee approves amendments to the investment policies. The policy states that no more than 35% of the funds shall be invested in any type of equity securities with no more than 15% of the funds in non-domestic equities. The policy also states investment concentration restrictions such that (i) with the exception of issues in U.S. government and agency securities, insured certificates of deposit, mutual funds and exchange traded funds, investment in any one issue shall not exceed 5% of the total market value of the portfolio and (ii) with the exception of money market mutual funds, investment in any one mutual fund or exchange traded fund shall not exceed 30% of the total market value of the portfolio. An exception for the annuity was approved by WPPI Energy’s Executive Committee, which exceeded 5% of the plan’s fiduciary net position in 2016 and 2015. The plan’s asset allocations by asset category were as follows at December 31:

Asset Category	2016	2015
Annuity	34.78%	22.90%
Debt securities	44.58%	58.17%
Equity securities	20.64%	18.93%
Total	100.00%	100.00%

The plan’s 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), the plan would not be able to recover the value of the investment or collateral securities. All investments held as of December 31, 2016 and 2015 were FDIC insured or represent ownership interest that do not exist in physical or book-entry form.
- **Credit risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The plan’s investment in debt securities include mutual funds and exchange traded funds not rated by a nationally recognized statistical rating organization, although the underlying securities are generally of investment-grade credit quality. The annuity is issued by an insurance company rated AA by Standard & Poor’s and Aa3 by Moody’s, as of December 31, 2016 and 2015.
- **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). The securities underlying the plan’s investment in debt securities are primarily short- and intermediate-term bonds.
- **Fair value measurements** – The plan 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 and equity 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 one dollar per share.

As of December 31, 2016, the plan's recurring fair value measurements by level were as follows:

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investments at fair value				
Debt securities				
Money market mutual funds	\$ 12,830	\$ -	\$ 12,830	\$ -
Domestic fixed income ETFs	376,827	376,827	-	-
Total debt securities	389,657	376,827	12,830	-
Equity securities				
Domestic equity ETFs	146,202	146,202	-	-
International equity ETFs	34,234	34,234	-	-
Total equity securities	180,436	180,436	-	-
Total investments at fair value	\$ 570,093	\$ 557,263	\$ 12,830	\$ -

As of December 31, 2015, the plan's recurring fair value measurements by level were as follows:

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investments at fair value				
Debt securities				
Money market mutual funds	\$ 33,764	\$ -	\$ 33,764	\$ -
Domestic fixed income ETFs	875,245	875,245	-	-
Total debt securities	909,009	875,245	33,764	-
Equity securities				
Domestic equity ETFs	236,604	236,604	-	-
International equity ETFs	59,248	59,248	-	-
Total equity securities	295,852	295,852	-	-
Total investments at fair value	\$ 1,204,861	\$ 1,171,097	\$ 33,764	\$ -

The annual money-weighted rate of return on the plan's investments was 2.98% and -0.18% for the years ended December 31, 2016 and 2015, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

For the years ended December 31, 2016 and 2015, WPPI Energy recognized pension expense of \$91,465 and \$30,209, respectively. A schedule of deferred outflows and inflows of resources related to pensions are as follows at December 31:

2016	Original Amount	Date Established	Recognized in Pension Expense	Balance of Deferred Outflows of Resources	Balance of Deferred Inflows of Resources
Differences between expected and actual experience (1)	\$ 72,732	12/31/2016	\$ 72,732	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments (2)	12,339	12/31/2016	2,468	9,871	-
Net difference between projected and actual earnings on pension plan investments (3)	70,797	12/31/2015	14,159	42,479	-
Total	<u>\$ 155,868</u>		<u>\$ 89,359</u>	<u>\$ 52,350</u>	<u>\$ -</u>

2015	Original Amount	Date Established	Recognized in Pension Expense	Balance of Deferred Outflows of Resources	Balance of Deferred Inflows of Resources
Changes of assumptions (1)	\$ 10,167	12/31/2015	\$ 10,167	\$ -	\$ -
Differences between expected and actual experience (1)	7,351	12/31/2015	7,351	-	-
Net difference between projected and actual earnings on pension plan investments (3)	70,797	12/31/2015	14,159	56,638	-
Total	<u>\$ 88,315</u>		<u>\$ 31,677</u>	<u>\$ 56,638</u>	<u>\$ -</u>

- (1) WPPI Energy recognized in pension expense, the original amount associated with these components in the year presented (no expected remaining service lives).
- (2) WPPI Energy recognized in pension expense over a closed five-year period, beginning with the year ended December 31, 2016.
- (3) WPPI Energy recognized in pension expense over a closed five-year period, beginning with the year ended December 31, 2015.

The balances reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows at December 31:

2017	\$	16,627
2018		16,627
2019		16,628
2020		2,468
2021		-
Thereafter		-
<u>Total</u>	<u>\$</u>	<u>52,350</u>

Components of and changes in the net pension liability (asset), the total pension liability less the fiduciary net position, were as follows at December 31:

	<u>2016</u>	<u>2015</u>
Total pension liability		
Interest	\$ 45,245	\$ 66,342
Differences between expected and actual experience	72,732	7,351
Changes of assumptions	-	10,167
Benefit payments	<u>(719,374)</u>	<u>(240,064)</u>
Net change in total pension liability	(601,397)	(156,204)
Total pension liability, beginning	<u>1,595,348</u>	<u>1,751,552</u>
Total pension liability, ending (a)	<u>\$ 993,951</u>	<u>\$ 1,595,348</u>
Plan fiduciary net position		
Net investment income	\$ 30,800	\$ (2,987)
Benefit payments	<u>(719,374)</u>	<u>(240,064)</u>
Net change in plan fiduciary net position	(688,574)	(243,051)
Plan fiduciary net position, beginning	<u>1,562,625</u>	<u>1,805,676</u>
Plan fiduciary net position, ending (b)	<u>\$ 874,051</u>	<u>\$ 1,562,625</u>
Net pension liability, ending (a) - (b)	<u>\$ 119,900</u>	<u>\$ 32,723</u>
Plan fiduciary net position as percentage of the total pension liability	87.94%	97.95%

The total pension liability was determined by WPPI Energy as of December 31, 2016, calculated based on the present value of the remaining fixed benefit payments of the two inactive employees using the discount rate below. The total pension liability was determined by an actuarial valuation as of December 31, 2015, calculated based on the entry age normal actuarial cost method, an inflation rate of 3.00% and the discount rate below. For the years ended December 31, 2016 and 2015, no funding valuation was performed for the plan and no actuarially determined contribution was calculated. GASB 67 and GASB 68 provide for alternative evaluations of sufficiency of a plan's projected fiduciary net position, if such evaluation can reliably be made. An alternative evaluation

of sufficiency was based on the plan being closed to new entrants with no future benefit accruals, known duration of remaining fixed benefit payments and the plan's fiduciary net position relative to the total pension liability. Mortality was not applicable as the two inactive employees are receiving certain-only annuities.

Gains or losses may arise from the following sources:

- A change in the total pension liability resulting from a change in assumptions.
- Actual rate of return differing from expected rate of return.
- Difference in the total pension liability at year-end (from expected value) due to other plan experience different from assumed.

Additionally, the long-term expected rate of return on 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 investment expense and inflation) are developed for each major asset category. 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. Best estimates of arithmetic real rates of return for each major asset category included in the plan's target asset allocation (see the presentation of the plan's investment policies on page 42) were as follows at December 31:

2016	Expected Return Arithmetic Basis		
Asset Category	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Equity securities	25.00%	3.24%	0.81%
Debt securities	50.00%	1.45%	0.73%
Annuity & Other	25.00%	-0.06%	-0.02%
Total			1.52%
	Inflation		2.39%
	Expected arithmetic nominal return		3.91%

2015	Expected Return Arithmetic Basis		
Asset Category	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Equity securities	25.00%	3.80%	0.95%
Debt securities	50.00%	1.57%	0.78%
Annuity & Other	25.00%	0.06%	0.02%
Total			1.75%
	Inflation		2.27%
	Expected arithmetic nominal return		4.02%

The discount rate used to measure the total pension liability was 3.91% and 4.02% as of December 31, 2016 and 2015, respectively. Management determined the appropriate discount rate for calculating the total pension liability was the long-term expected rate of return on the plan's investments.

The net pension liability (asset) of the plan, calculated using discount rates of 3.91% and 4.02%, as well as what the plan's net pension liability (asset) would be if it were calculated using discount rates that are one percentage point lower and one percentage higher than the current discount rates was as follows at December 31:

	2016	2015
One percentage point lower (2.91%, 3.02%)	\$ 141,750	\$ 95,705
Current discount rate (3.91%, 4.02%)	119,900	32,723
One percentage point higher (4.91%, 5.02%)	98,712	(25,027)

(d) *Postemployment Medical Insurance*

WPPI Energy provides postemployment medical insurance benefits. An employee who reaches age 60 and has ten years of service with WPPI Energy qualifies for retiree coverage under WPPI Energy's medical insurance at the retiree's cost. 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 medical 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% reimbursement and part-time employees a pro rata portion of the cost of a Medicare supplemental policy. Separate plans provide health insurance premium payments for life for one retired participant and one retired participant and spouse. At December 31, 2016, there were 97 active participants, 7 retired participants and \$56,527 in benefits were paid. WPPI Energy is the plan administrator and does not charge the plan for services. WPPI Energy's Executive Committee approves amendments to the plan and defines the amount of plan contributions.

WPPI Energy's Board of Directors did not designate earnings to be held for the purpose of meeting future postemployment medical obligations in 2016 and 2015. Since inception, \$1,365,000 has been designated for the purpose of meeting future postemployment medical obligations. For these designations to count toward funding the plan, they would need to be held under a third party's control in a separate trust account. WPPI Energy holds the dollars in a segregated account, but the dollars remain under WPPI Energy's control.

For the year ended December 31, 2016, other postemployment benefit (OPEB) expense was \$243,819. At December 31, 2016, the net OPEB obligation of \$1,648,447 is included on the Statements of Net Position as a part of non-current liabilities. 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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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. The table below shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan and changes in the net OPEB obligation to the plan.

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. The actuarial valuation date used to determine the OPEB obligations was December 31, 2016. In the actuarial valuation, the projected unit credit actuarial cost method was used. A 30-year amortization period is used with a level dollar amortization method. The actuarial assumptions also include a 3.0% discount rate. Annual medical trend rate assumptions are as follows at December 31, 2016:

Pre 65		Post 65		Part B Premium	
Year	Annual Medical Trend Rate	Year	Annual Medical Trend Rate	Year	Annual Medical Trend Rate
2017	6.00%	2017	6.30%	2017	1.30%
2018	5.70%	2018	5.90%	2018	8.10%
2019	5.50%	2019	5.40%	2019	5.90%
2020	5.70%	2020	5.00%	2020	5.40%
2021	6.00%	2030	4.70%	2030	5.30%
2022	5.80%	2040	4.80%	2040	5.10%
2023	5.70%	2050	4.60%	2050	5.00%
2024	5.60%	2060	4.50%	2060	5.00%
2025	5.50%	2070	4.10%	Ultimate 2063	4.70%
2026-2039	5.40%	Ultimate 2076	3.90%		
2040	5.30%				
2041-2042	5.20%				
2043-2044	5.10%				
2045-2048	5.00%				
2049-2055	4.90%				
2060	4.80%				
2070	4.30%				
Ultimate 2074	4.00%				

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of interest, future employment, mortality, turnover and the healthcare cost trend. Amounts determined regarding the funded status of the plan and ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial accrued liability	\$ 2,213,665	\$ 2,178,048	\$ 2,293,436
Present value of future normal costs	<u>1,701,241</u>	<u>2,288,324</u>	<u>2,770,675</u>
Actuarial present value of total projected benefits	3,914,906	4,466,372	5,064,111
Schedule of funded status			
Actuarial accrued liability	2,213,665	2,178,048	2,293,436
Actuarial value of assets	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	2,213,665	2,178,048	2,293,436
Funded ratio	-	-	-
Covered payroll	9,093,402	8,857,872	8,200,433
UAAL as a percentage of covered payroll	24.34%	24.59%	27.97%
Determination of annual required contribution			
Normal cost for benefits	161,253	190,487	175,032
Amortization of unfunded actuarial liability	<u>111,123</u>	<u>117,009</u>	<u>106,392</u>
Annual required contribution (ARC)	272,376	307,496	281,424
Net OPEB obligation			
Annual required contribution (ARC)	272,376	307,496	281,424
Interest on net OPEB obligation	43,860	37,259	31,545
Adjustment to annual required contribution	(72,417)	(61,519)	(52,083)
Contributions made	<u>(56,527)</u>	<u>(63,234)</u>	<u>(70,390)</u>
Change in net OPEB obligation	187,292	220,002	190,496
Net OPEB obligation, beginning of year	<u>1,461,155</u>	<u>1,241,153</u>	<u>1,050,657</u>
Net OPEB obligation, end of year	<u>\$ 1,648,447</u>	<u>\$ 1,461,155</u>	<u>\$ 1,241,153</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, 2016 and 2015. 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 are leased back to Menasha under a capital lease, which had an initial gross amount of \$13.3 million. WPPI Energy has recorded 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. The acquisition premium associated with the entire transaction was paid by WPPI Energy in the amount of \$2.24 million and is recorded as a deferred outflow of resources and amortized over the 20 year life of the lease. See Note 14 for related subsequent event.

Lease payments receivable from Menasha are as follows:

Year	Principal	Interest	Total
2017	\$ 487,591	\$ 704,355	\$ 1,191,946
2018	520,246	671,700	1,191,946
2019	555,088	636,858	1,191,946
2020	592,263	599,683	1,191,946
2021	631,928	560,018	1,191,946
2022-2026	3,854,074	2,105,656	5,959,730
2027-2031	4,415,906	649,870	5,065,776
Total	<u>\$ 11,057,096</u>	<u>\$ 5,928,140</u>	<u>\$ 16,985,236</u>

(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 2016 and 2015, 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:

	2016	2015
Beginning of year	\$ 4,751,286	\$ 4,704,982
Additions, representing interest	61,312	46,304
End of year	<u>\$ 4,812,598</u>	<u>\$ 4,751,286</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:

	2016	2015
Beginning of year	\$ 7,592,025	\$ 7,028,480
Additions	1,448,508	1,294,036
Usage	(392,418)	(730,491)
End of year	<u>\$ 8,648,115</u>	<u>\$ 7,592,025</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 various long-term capacity and energy purchase contracts with various power suppliers. The major purchase contracts are described in Note 1(t). In addition, WPPI Energy has capacity and energy purchases from wind, run of river hydro, landfill gas and solar resources with name plate capacity totaling approximately 174 MW and 173 MW in 2016 and 2015, respectively.

WPPI Energy has purchased power contracts with WEPCO, WPL and WPS that provide WPPI Energy system average cost power under formula-based rates. The capacity charges for each calendar year are true-up in the following year. The exact timing and mechanics of the true-up vary by purchase. WPPI Energy will recognize the actual amount of the true-ups for each calendar year in the following year.

In January 2017, WPPI Energy entered into a purchase power agreement to buy the electricity from the planned 100 MW Point Beach Solar Energy Center until May 31, 2042. NextEra Energy Resources, a subsidiary of NextEra Energy, Inc., plans to build the Point Beach Solar Energy Center on land adjacent to its existing Point Beach Nuclear Plant (see Note 1(t)). The Point Beach Solar Energy Center is scheduled to come online in 2021.

WPPI Energy participates in the MISO market. MISO routinely true-up 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.

Under the MISO tariff, MISO evaluates the intended retirement or suspension of certain generation resources to determine the impact of their removal from service on the reliability of the electric grid. If a generation resource is needed to maintain reliability of the electric grid, MISO has the ability to require it to remain in service as a System Support Resource (SSR). Costs relating to a generation resource's

continued SSR operation are further determined under the MISO tariff and allocated to load-serving entities (LSEs) benefitting from its continued operation.

During 2015 and 2016, multiple dockets were pending at FERC concerning the appropriate allocation and potential reallocation of SSR costs among LSEs related to certain generation resources for which WPPI Energy had previously paid MISO allocated costs in 2015 and prior years. In 2015, FERC issued a series of orders conditionally accepting certain tariff changes filed by MISO for revising its proposed SSR cost allocation methodology, and resulting SSR cost allocation to LSEs for certain generation resources for which WPPI had paid MISO allocated costs. These changes were expected to result in refunds to certain LSEs, including WPPI Energy, of some amount of SSR costs previously paid. A number of FERC's orders have been challenged by stakeholders opposing its approval of MISO's revised SSR cost allocation methodology. FERC had indicated that it would not address implementation of the SSR cost refund requirement for certain generation resources until it has unconditionally approved MISO's SSR cost allocation methodology and MISO has filed a detailed refund report.

In May 2016, FERC unconditionally approved MISO's revised SSR cost allocation methodology. MISO subsequently filed detailed refund reports which ultimately resulted in the commencement of refunds to LSEs, including WPPI Energy, in monthly installments beginning in July 2016. Following the commencement of such SSR refund installment payments to LSEs, including WPPI Energy, FERC ordered MISO in September 2016 to suspend such SSR refund installment payments for certain generation resources. FERC also ordered MISO to file updated detailed refund reports after FERC's order in a separate docket related to such generation resources which could reduce the total SSR amount that such generation resources were entitled to recover, which would result in further refunds for some LSEs, including WPPI Energy. WPPI Energy is unable to predict the outcome of any legal challenges and the potential impact on the final form and timing of the SSR cost refund requirement.

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 complaint covers the period from November 12, 2013 through February 11, 2015. On September 28 2016, FERC affirmed the administrative law judge's initial decision of a base ROE of 10.32% and ordered MISO transmission owners to submit compliance filings to revise their tariffs by October 28, 2016 and issue refunds, with interest. Refunds are required by July 28, 2017.

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 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 this complaint with a recommended base ROE of 9.70%, and requires 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.

While WPPI Energy cannot predict the outcome of the February 12, 2015 complaint, 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. WPPI Energy recorded a regulatory liability of \$13,359 as of December 31, 2016 for its share of the CapX 2020 La Crosse project, subject to refund.

On October 23, 2015, the U.S. Environmental Protection Agency (EPA) published a final rule pursuant to Section 111(d) of the Clean Air Act establishing carbon dioxide (CO₂) emissions guidelines for existing EGUs. The rule, known as the Clean Power Plan, establishes interim and final CO₂ emission performance rates for existing fossil fuel-fired electric steam generating units and stationary combustion turbines. States will be required to meet interim reduction goals over the period from 2022 through 2029, and a final

reduction goal beginning in 2030. States were to submit their implementation plans to the EPA by September 6, 2016, with a possibility of an extension to September 6, 2018, subject to certain requirements. If a state had decided not to submit an implementation plan to the EPA, the EPA would impose a final federal plan enforceable upon the state. Also on October 23, 2015, the EPA published its proposed federal plan to implement the Clean Power Plan, along with model trading rules and amendments to framework regulations.

Legal challenges have been filed with respect to the EPA's regulation of utility CO₂ emissions. On February 9, 2016, the U.S. Supreme Court granted a stay of the Clean Power Plan pending judicial review. On September 27, 2016, oral arguments were held before U.S. Court of Appeals for the D.C. Circuit. A decision is expected in 2017. WPPI Energy is in the process of continuing to review the final rule and is monitoring progress on the preparation of state implementation plans in the states it has generating units and members. WPPI Energy is unable to predict the outcome of these legal challenges, the nature of applicable state implementation plans or the potential impact on the final form and timing of these regulations.

On July 6, 2011, the EPA issued the Cross-State Air Pollution Rule (CSAPR), which requires electric generating facilities in certain states, including Minnesota and Wisconsin, to have sufficient allowances to cover emissions of sulfur dioxide and nitrous oxide (NO_x). CSAPR's compliance periods began on January 1, 2015. WPPI Energy currently receives a surplus of allowances in Minnesota, and is required to purchase allowances in Wisconsin. On September 7, 2016, the EPA published an update to CSAPR that reduces ozone season NO_x budgets in a number of states, including Wisconsin, beginning in 2017. The reduction in NO_x budgets provided under the CSAPR update rule is expected to increase the cost of ozone season NO_x allowances that WPPI Energy will be required to purchase for its Wisconsin generating units.

(14) Subsequent Events

Effective December 31, 2016, WPPI Energy terminated the SEP plan (see Note 9(a)). Effective January 1, 2017, all eligible employees will participate in the Wisconsin Retirement System (WRS), a cost-sharing multiple-employer defined benefit pension plan. Benefits of the WRS and other plan provisions are within Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The WRS is administered by the Wisconsin Department of Employee Trust Funds. WPPI Energy and all eligible employees will make contributions, based on actuarially determined contribution rates, to the WRS. As a participating employer in the WRS, WPPI Energy will recognize and disclose its proportionate share of any net pension liability (asset) in its financial statements and accompanying notes.

Certain MISO transmission owners, including ATC, issued refunds to transmission customers, including WPPI Energy, related to the November 12, 2013 complaint in January and February of 2017. WPPI Energy received refunds totaling \$4.8 million, including interest, for certain transmission service charges it previously paid related to the November 12, 2013 complaint.

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 (see Note 11). 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.

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Changes in Employers' Net Pension Liability and Related Ratios
Year Ended December 31

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Interest	\$ 45,245	\$ 66,342	\$ 88,410
Differences between expected and actual experience	72,732	7,351	(56,200)
Changes of assumptions	-	10,167	38,005
Benefit payments	<u>(719,374)</u>	<u>(240,064)</u>	<u>(123,125)</u>
Net change in total pension liability	(601,397)	(156,204)	(52,910)
Total pension liability, beginning	<u>1,595,348</u>	<u>1,751,552</u>	<u>1,804,462</u>
Total pension liability, ending (a)	<u>\$ 993,951</u>	<u>\$ 1,595,348</u>	<u>\$ 1,751,552</u>
Plan fiduciary net position			
Net investment income	\$ 30,800	\$ (2,987)	\$ 74,860
Benefit payments	<u>(719,374)</u>	<u>(240,064)</u>	<u>(123,125)</u>
Net change in plan fiduciary net position	(688,574)	(243,051)	(48,265)
Plan fiduciary net position, beginning	<u>1,562,625</u>	<u>1,805,676</u>	<u>1,853,941</u>
Plan fiduciary net position, ending (b)	<u>\$ 874,051</u>	<u>\$ 1,562,625</u>	<u>\$ 1,805,676</u>
Net pension liability, ending (a) - (b)	<u>\$ 119,900</u>	<u>\$ 32,723</u>	<u>\$ (54,124)</u>
Plan fiduciary net position as percentage of the total pension liability	87.94%	97.95%	103.09%
Covered-employee payroll	n/a	n/a	n/a
Net pension liability as percentage of covered-employee payroll	n/a	n/a	n/a

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

Schedule of Employer Contributions
Year Ended December 31

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	n/a	n/a	\$ 579
Contribution in relation to the actuarially determined contribution	<u>n/a</u>	<u>n/a</u>	<u>-</u>
Contribution deficiency (excess)	<u><u>n/a</u></u>	<u><u>n/a</u></u>	<u><u>\$ 579</u></u>
Covered-employee payroll	n/a	n/a	n/a
Contributions as a percentage of covered-employee payroll	n/a	n/a	n/a

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

Schedule of Investment Returns
Year Ended December 31

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	2.98%	-0.18%	4.19%

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

Schedule of Funding Progress - Other Postemployment Benefits (OPEB)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Ratio of UAAL to Covered Payroll
12/31/14	\$ -	\$ 2,293,436	\$ 2,293,436	0.00%	\$ 8,200,433	27.97%
12/31/15	\$ -	\$ 2,178,048	\$ 2,178,048	0.00%	\$ 8,857,872	24.59%
12/31/16	\$ -	\$ 2,213,665	\$ 2,213,665	0.00%	\$ 9,093,402	24.34%