WPPI Energy

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2017 and 2016

WPPI Energy

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December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 28, 2018

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, 2017 and 2016. 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 2017 and 2016. The following is a description of these events and their impact on WPPI Energy's financial statements and the accompanying notes.

2017

Refunds

In 2017, WPPI Energy recognized refunds, including interest, of i) $5.0 million associated with the first complaint at the Federal Energy Regulatory Commission (FERC) related to lower base return on equity of certain transmission owning members of the Midcontinent Independent System Operator, Inc. (MISO), including American Transmission Company LLC (see Note 13) and ii) $0.8 million related to allocation of voltage and local reliability costs in MISO. In 2017, WPPI Energy also received refunds, including interest, of $3.3 million associated with certain system support resource charges previously paid in MISO (see Note 13). This refund is planned to be applied to recoverable future costs to members in 2018 and is reported as a regulatory liability under deferred inflows of resources at the end of 2017. Consequently, this refund did not impact WPPI Energy's change in net position in 2017; however, it did increase WPPI Energy's unrestricted cash and investments.

Seasonal Demand Rates

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

Menasha Lease Repayment

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

Power Supply Portfolio Changes

Two major purchase power agreements completed their respective terms in 2017 (see Note 1(t)). WPPI Energy purchased i) 125 MW under a formula rate tariff with Wisconsin Power & Light that ended on June 1, 2017 and ii) 85 MW from Kendall County Generating Facility Unit 3 that ended on September 17, 2017. Effective June 1, 2017, WPPI began purchasing approximately 90 MW from the Nelson Energy Center that has an initial term that runs through May 31, 2037 (see Note 1(t)). Changes in its power supply portfolio impacted WPPI Energy's participation and the amount of purchases and sales in organized wholesale electric markets in 2017. Also during 2017, WPPI Energy announced new purchase power agreements to buy electricity from a planned 99 MW solar project and planned 132 wind project with anticipated commercial operation in 2021 and mid-2018, respectively (see Note 13).

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 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.

Market Conditions

The overall mild weather that occurred in 2015 was generally sustained into 2016. Market energy prices in the 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.

Condensed Statements of Net Position
(in millions)

	2017	2016	2015	2017-2016 Change	2016-2015 Change
Assets					
Current assets	$ 168.0	$ 162.2	$ 157.6	$ 5.8	$ 4.6
Non-current assets	239.7	245.2	247.8	(5.5)	(2.6)
Capital assets, net	397.9	402.4	406.5	(4.5)	(4.1)
Total assets	805.6	809.8	811.9	(4.2)	(2.1)
Deferred Outflows of Resources	20.7	23.9	19.3	(3.2)	4.6
Liabilities					
Current liabilities	64.0	68.5	63.3	(4.5)	5.2
Non-current liabilities	7.9	7.6	5.2	0.3	2.4
Long-term debt, including unamortized premium	405.8	434.4	457.4	(28.6)	(23.0)
Total liabilities	477.7	510.5	525.9	(32.8)	(15.4)
Deferred Inflows of Resources	69.6	64.9	62.4	4.7	2.5
Net Position	279.0	258.3	242.9	20.7	15.4

Assets & Deferred Outflows of Resources

Total assets at the end of 2017 were $805.6 million, which was a decrease of $4.2 million from 2016. Total assets at the end of 2016 were $809.8 million, which was a decrease of $2.1 million from 2015.

Current assets increased $5.8 million in 2017 and $4.6 million in 2016. The increase in current assets in 2017 was due primarily to higher unrestricted cash and investments, partially offset by lower restricted cash and investments from continued construction fund spend and lower receivables. Higher unrestricted cash and investments was due primarily to receipt of funds associated the Menasha lease repayment and refunds received in 2017. The increase in current assets in 2016 was due primarily to higher unrestricted cash and investments and receivables from non-member sales, partially offset by lower restricted cash and investments from continued construction fund spend and lower prepayments and other assets.

Non-current assets decreased $5.5 million in 2017 and $2.6 million in 2016. The decrease in non-current assets in 2017 was due primarily to reductions in non-current receivables associated with the Menasha lease repayment and regulatory assets. The decrease in non-current assets in 2016 was due primarily from reductions in regulatory assets and construction and debt service reserve funds classified as non-current. The decreases in 2017 and 2016 were partially offset by increases in investment in ATC and reserve funds.

The balance in the renewal and replacement fund of $20.8 million at the end of 2017 was comprised of approximately $13.1 million for future capital improvements and $7.7 million for future long-term maintenance. In comparison, the balance in the renewal and replacement fund of $17.0 million at the end of 2016 was comprised of approximately $8.4 million for future capital improvements and $8.6 million for future long-term maintenance. Contributions, net of usage, was $4.0 million in 2017 and $(0.2) million in 2016. The usage in 2017 and 2016 was primarily for capital additions at Boswell Unit 4 and Elm Road Generating Station (ERGS) Units 1 and 2. In addition, usage in 2017 also included capital repairs at Island Street Peaking Plant.

Non-current assets include WPPI Energy's investment in ATC, which increased $9.0 million in 2017, which included capital contributions of $6.7 million to meet voluntary capital calls. In 2016, investment in ATC increased $9.0 million which included capital contributions to ATC of $4.7 million to meet voluntary capital calls.

Regulatory assets decreased $4.1 million in 2017 and $8.1 million in 2016. The decreases in regulatory assets were due primarily to ongoing reductions in future recoverable costs which ultimately resulted in the reclassification of future recoverable costs from a regulatory asset to a regulatory liability in 2017.

Capital assets net of accumulated depreciation decreased $4.5 million in 2017 and $4.1 million in 2016 as a result of a net increase in accumulated depreciation. This was offset by higher plant and construction work in progress. Construction work in progress in 2017 and 2016 consisted primarily of construction at Boswell Unit 4 related to various capital projects and the Badger-Coulee project.

Deferred outflows of resources decreased $3.2 million in 2017 due primarily to lower loss on reacquired debt from ongoing amortization and expensing the acquisition premium associated with the Menasha lease repayment. Deferred outflows of resources increased $4.6 million in 2016 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 ongoing amortization.

Liabilities & Deferred Inflows of Resources

Current liabilities decreased $4.5 million in 2017 due primarily to lower accounts payable from purchased power. Current liabilities increased $5.2 million in 2016 due primarily to higher current maturities of long-term debt and higher accounts payable from purchased power.

Non-current liabilities increased $0.3 million in 2017. Non-current liabilities increased $2.4 million in 2016 due primarily to an increase in asset retirement obligations as a result of an updated periodic site decommissioning study for the Boswell site.

Long-term debt including unamortized premium decreased $28.6 million in 2017 and $23.0 million in 2016 due to the reclassification of certain long-term debt to current maturities and amortization of the premium, including the issuance of the 2016 A bonds, as described earlier.

Deferred inflows of resources increased $4.7 million in 2017 and $2.5 million in 2016. The increase in deferred inflows of resources in 2017 was due primarily to the aforementioned reclassification of future recoverable costs and refunds WPPI Energy received in 2017 for costs previously paid for system support resources, including interest, to be applied to recoverable future costs (see Note 13). The increase was partially offset by a reduction in unearned interest related to the Menasha lease repayment. The increase in deferred inflows of resources in 2016 was due primarily to higher reserves for rate stabilization and renewal and replacement long-term maintenance expenses. 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 $0.7 million in 2017 and $2.5 million in 2016.

Net Position

Net position was $279.0 million at the end of 2017 and $258.3 million at the end of 2016. The change in net position of $20.7 million in 2017 was higher than 2016 due primarily to the refunds recognized in 2017, as described earlier. The change in net position of $15.4 million in 2016 was higher than 2015 due primarily to recognizing 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. The change in net position results primarily from revenue collected through WPPI Energy's rates to its members, which were designed to collect a margin to result in 1.25 times debt service in 2017, 1.29 times debt service in 2016 and 1.32 times debt service in 2015, and an increase in WPPI Energy's equity in ATC that was retained in ATC.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

(in millions)

	2017	2016	2015	2017-2016 Change	2016-2015 Change
Operating revenues	$ 471.3	$ 476.6	$ 480.7	$ (5.3)	$ (4.1)
Operating expenses	433.6	453.5	456.2	(19.9)	(2.7)
Operating income	37.7	23.1	24.5	14.6	(1.4)
Non-operating revenues (expenses), net	(6.2)	(2.0)	(4.6)	(4.2)	2.6
Future recoverable costs	(10.8)	(5.7)	(5.2)	(5.1)	(0.5)
Change in net position	20.7	15.4	14.7	5.3	0.7
Net position, beginning of year	258.3	242.9	228.2	15.4	14.7
Net position, end of year	$ 279.0	$ 258.3	$ 242.9	$ 20.7	$ 15.4

Operating Revenues

Total operating revenues in 2017 were $471.3 million, which was a decrease of $5.3 million from 2016. Total operating revenues in 2016 were $476.6 million, which was a decrease of $4.1 million from 2015. Lower total operating revenues in 2017 and 2016 compared 2015 were due primarily to lower revenue from energy sales to members, partially offset by higher revenue from off system sales into the MISO market. 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 $5.0 million in 2017 due primarily to lower MWh sold to members. Revenue from energy sales to members decreased $10.7 million in 2016 as result of lower average power cost (wholesale rates) charged to members and lower MWh sold to members.

Energy Sales to Members (MWh)

	2017	2016	2015	% Change 2017-2016	% Change 2016-2015
Energy sales to members	5,002,230	5,126,325	5,156,227	-2.4%	-0.6%

The decrease in energy sales to members was due primarily to overall mild weather occurring in 2016 and generally sustained throughout 2017. Energy sales to members in 2017 and 2016 compared to 2015 were also impacted by curtailed operations at two industrial customers. One of the industrial customers, representing approximately 4.2% of energy sales to members in 2016, curtailed operations in 2017. The other industrial customer, representing approximately 1.0% of energy sales to members in 2015, curtailed operations and eventually closed in 2016.

Revenue from sales to others decreased $1.9 million in 2017 as a result of lower off system sales. Revenue from sales to others increased $7.1 million in 2016 as 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.

Operating Expenses

Operating expenses were $433.6 million in 2017, which was a decrease of $19.9 million from 2016. Operating expenses were $453.5 million in 2016, which was a decrease of $2.7 million from 2015. The decrease in operating expenses in 2017 compared to 2016 was due primarily to the lower purchased power and depreciation and amortization. The decrease in operating expenses in 2016 compared to 2015 was due primarily to lower purchased power which was partially offset by higher fuel expense, operation and maintenance and depreciation and amortization.

Purchased power, including transmission expenses, decreased by $17.4 million in 2017 due primarily to recognizing aforementioned refunds of costs previous paid by WPPI Energy and lower nominations and costs under formula rate tariffs. In addition, the changes in WPPI Energy's power supply portfolio during 2017 provided lower overall purchased power costs. Purchased power, including transmission expenses, decreased by $12.9 million in 2016 due primarily to lower nominations and costs under formula rate tariffs, and lower cost of market energy purchases from the MISO and PJM Interconnection, LLC (PJM) markets. The decrease was partially offset by higher transmission-related expenses.

Fuel expense decreased $0.3 million in 2017 with lower total production at WPPI Energy's owned generating units. In 2017, higher delivered fuel price at Boswell Unit 4 was offset by lower delivered fuel price at ERGS Units 1 and 2. Fuel expense increased $6.5 million in 2016 due primarily to higher production at WPPI Energy's owned generating units and higher delivered fuel price at Boswell Unit 4.

Owned Generation Production by Unit (MWh)

	2017	2016	2015	% Change 2017-2016	% Change 2016-2015
Boswell Unit 4	792,658	854,435	690,956	-7.2%	23.7%
ERGS Unit 1	338,752	325,544	305,961	4.1%	6.4%
ERGS Unit 2	320,022	329,792	290,408	-3.0%	13.6%
ISPP	5,736	10,052	10,339	-42.9%	-2.8%
SFDL Units 1 and 4	10,488	10,532	5,542	-0.4%	90.0%
Total	1,467,656	1,530,355	1,303,206	-4.1%	17.4%

The production at Boswell Unit 4 was lower in 2015 compared to 2017 and 2016 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 an environmental retrofit project. The production was lower in 2017 compared to 2016 due primarily to additional outage hours and changes in fuel strategy.

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 has continued to increase compared to 2015 due primarily to expanded use of sub-bituminous coal mined from the western United States which resulted in lower fuel costs and more favorable dispatch economics. The flexible fuel and expanded storage and fuel handling projects were completed in 2017.

The production at Island Street Peaking Plant (ISPP) was lower in 2017 compared to 2016 and 2015 due primarily to a 12 week outage in the spring of 2017 to repair two turbine engines. The production at ISPP and

South Fond du Lac (SFDL) Units 1 and 4 has varied the last several years due to changes in generation dispatch patterns in the MISO market footprint.

Non-Operating Revenues (Expenses), Net

Net non-operating expenses increased $4.2 million in 2017 and decreased $2.6 million in 2016. The increase in 2017 was due primarily to i) lower allowance for funds used during construction (AFUDC), ii) lower gains on sales of allowances as a result of terminating agreements and iii) expensing the outstanding acquisition premium associated with the Menasha lease repayment. This was partially offset by increases in investment income and equity earnings in ATC and lower interest expense. The decrease in 2016 was due primarily to higher investment income and equity earnings in ATC, and the aforementioned gain from the termination of certain forward delivery agreements in conjunction with the issuance of the 2016 A bonds.

Equity in earnings of ATC increased $0.5 million in 2017 and $0.4 million in 2016, and were impacted by regulatory liabilities and refunds associated with two FERC complaints (see Note 13). 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.

Interest expense decreased $0.9 million in 2017 and $1.5 million in 2016 as a result of refunding existing debt through the issuance of the 2016 A bonds and annual payments of principal.

Future Recoverable Costs

Future recoverable costs equaled $(10.8) million in 2017, a change of $(5.1) million from 2016. Future recoverable costs equaled $(5.7) million in 2016, a change of $(0.5) million from 2015. As allowed through the application of GASB 62, future recoverable costs represent the difference between depreciation and amortization expenses for assets that are financed with bond proceeds and the related principal collected from rates in the present period.

Contact Information

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

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

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WPPI Energy
Statements of Net Position
December 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Unrestricted cash and investments	$ 89,803,191	$ 74,627,911
Restricted cash and investments	29,510,700	35,052,968
Receivables	34,715,313	38,534,769
Inventories	11,609,110	12,424,605
Prepayments and other assets	2,350,747	1,529,087
Total current assets	167,989,061	162,169,340
Non-current assets		
Unrestricted cash and investments	76,599,946	70,835,689
Restricted cash and investments	31,599,739	31,747,469
Investment in ATC	123,257,114	114,214,441
Receivables from members	3,475,024	19,257,683
Regulatory assets	3,513,878	7,585,869
Prepayments and other assets	1,291,139	1,527,022
Total non-current assets	239,736,840	245,168,173
Capital assets		
Electric plant and equipment	576,549,487	574,838,082
Accumulated depreciation and amortization	(186,348,739)	(177,034,271)
Electric plant and equipment, net	390,200,748	397,803,811
Land	704,180	240,922
Construction work in progress	6,958,688	4,412,677
Total capital assets	397,863,616	402,457,410
Total assets	**805,589,517**	**809,794,923**
Deferred Outflows of Resources		
Unamortized loss on reacquired debt	20,004,317	22,458,440
Sale-leaseback acquisition premium	-	1,380,866
Employer contributions subsequent to the measurement date	662,101	-
Pension	30,818	52,350
Total deferred outflows of resources	**20,697,236**	**23,891,656**

WPPI Energy
Statements of Net Position (cont'd)
December 31, 2017 and 2016

	2017	2016
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 29,981,998	$ 34,926,448
Restricted current maturities of long-term debt	24,365,000	23,440,000
Restricted accrued interest	9,628,784	10,176,034
Total current liabilities	63,975,782	68,542,482
Non-current liabilities		
Accounts payable	-	17,000
Asset retirement obligations	5,468,784	5,275,119
Benefits liabilities	2,448,859	2,267,279
Total non-current liabilities	7,917,643	7,559,398
Long-term debt		
Revenue bonds, net of unamortized premium	405,775,727	434,364,808
Total liabilities	**477,669,152**	**510,466,688**
Deferred Inflows of Resources		
Self-insurance reserve	4,878,488	4,812,598
Long-term maintenance reserve	7,691,962	8,648,115
Rate stabilization	46,159,143	45,488,036
Self-funded group health coverage reserve	111,349	31,571
Regulatory liabilities	10,787,138	13,359
Unearned interest on Menasha lease	-	5,928,140
Total deferred inflows of resources	**69,628,080**	**64,921,819**
Net Position		
Net investment in capital assets	(7,122,770)	(21,767,163)
Restricted		
Debt service	12,182,500	11,720,000
Debt service reserve	31,598,735	31,746,469
Other	1,004	1,000
Unrestricted	242,330,052	236,597,766
Total net position	**278,989,521**	**258,298,072**

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WPPI Energy
Statements of Revenue, Expenses, and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues		
Sales to members	$ 385,789,494	$ 390,775,059
Sales to others	84,793,721	86,675,063
Rate stabilization	(671,108)	(2,500,000)
Other income	1,389,950	1,637,642
Total operating revenues	471,302,057	476,587,764
Operating expenses		
Purchased power	348,065,310	365,477,213
Fuel expense	32,579,027	32,940,390
Operation and maintenance	15,139,968	15,500,385
Customer service and administrative and general	17,152,516	16,479,371
Depreciation and amortization	13,600,437	16,276,251
Taxes	7,020,078	6,829,195
Total operating expenses	433,557,336	453,502,805
Operating income	37,744,721	23,084,959
Non-operating revenues (expenses)		
Investment income	9,786,622	8,992,665
Equity in earnings of ATC	3,645,319	3,112,175
Allowance for funds used during construction	172,334	3,114,833
Net decrease in fair value of investments	(510,335)	(55,276)
Gain on sale of allowances	675,000	1,944,625
Gain on disposition of investments	-	787,000
Interest expense	(19,810,051)	(20,696,090)
Amortization of debt-related costs	1,433,786	1,225,683
Other	(1,590,294)	(381,812)
Total non-operating revenues (expenses), net	(6,197,619)	(1,956,197)
Change in net position before future recoverable costs	31,547,102	21,128,762
Future recoverable costs	(10,855,653)	(5,731,359)
Change in net position	20,691,449	15,397,403
Net position, beginning of year	258,298,072	242,900,669
Net position, end of year	$ 278,989,521	$ 258,298,072

See accompanying notes to the financial statements

WPPI Energy
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows provided by operating activities		
Cash receipts from members and others	$ 475,465,401	$ 478,495,627
Cash payments for purchased power	(350,015,643)	(364,413,450)
Cash payments for fuel	(31,969,543)	(31,738,774)
Cash payments for operations and maintenance	(13,252,651)	(11,390,943)
Cash payments for payroll and ad valorem taxes	(7,020,298)	(6,825,628)
Cash payments to employees	(9,812,848)	(9,130,600)
Cash payments for customer service & adm. and general	(10,876,144)	(9,713,810)
Net cash provided by operating activities	52,518,274	45,282,422
Cash flows provided by non-capital financing activities		
Cash receipts from outside parties	12,010,464	2,558,129
Cash payments to outside parties	(950,219)	(909,713)
Net cash provided by non-capital financing activities	11,060,245	1,648,416
Cash flows provided by (used in) investing activities		
Investments purchased	(101,013,322)	(103,837,867)
Investment in ATC	(6,686,696)	(4,680,688)
Investments sold	89,570,000	108,395,695
Investment income	2,690,523	2,609,330
Cash distributions received from ATC	8,569,729	5,020,974
Net cash provided by (used in) investing activities	(6,869,766)	7,507,444
Cash flows used in capital and related financing activities		
Acquisition and construction of capital assets	(8,260,717)	(6,360,067)
Principal paid	(23,440,000)	(19,165,000)
Debt issuance costs and escrow payment	(15,875)	(1,093,512)
Interest paid	(20,357,301)	(21,432,837)
Net cash used in capital and related financing activities	(52,073,893)	(48,051,416)
Change in cash and cash equivalents	4,634,860	6,386,866
Cash and cash equivalents, beginning of year	108,204,653	101,817,787
Cash and cash equivalents, end of year	$ 112,839,513	$ 108,204,653

WPPI Energy

Statements of Cash Flows (cont'd)

Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 37,744,721	$ 23,084,959
Depreciation and amortization	13,600,437	16,276,251
Other non-operating revenues (expenses), net	582,251	1,860,053
Changes in assets, liabilities, deferred outflows and inflows of resources		
Receivables	2,817,236	(2,221,686)
Inventories	815,495	879,503
Prepayments and other assets	(821,660)	256,432
Regulatory asset	304,660	304,660
Non-current prepayments and other assets	235,882	(1,277,293)
Pension	(640,569)	4,288
Current accounts payable and accrued liabilities	(5,444,650)	2,231,003
Non-current accounts payable	(17,000)	(17,000)
Benefits liabilities	181,580	503,760
Long-term maintenance reserve	(956,154)	1,056,090
Rate stabilization	671,108	2,500,000
Self-funded group health coverage reserve	79,777	(158,598)
Regulatory liabilities	3,365,160	-
Net cash provided by operating activities	$ 52,518,274	$ 45,282,422
Reconciliation of cash and cash equivalents to the Statements of Net Position		
Current assets		
Unrestricted cash and investments	$ 89,803,191	$ 74,627,911
Restricted cash and investments	29,510,700	35,052,968
Non-current assets		
Unrestricted cash and investments	76,599,946	70,835,689
Restricted cash and investments	31,599,739	31,747,469
Total cash and investments	227,513,576	212,264,037
Less: long-term investments	114,804,055	104,059,384
Total cash and cash equivalents	$ 112,709,521	$ 108,204,653

WPPI Energy
Statements of Cash Flows (cont'd)
Years Ended December 31, 2017 and 2016

Noncash investing, capital and related-financing activities

During 2017 and 2016, WPPI Energy recognized $3,645,319 and $3,112,175 of equity earnings in ATC.
During 2017 and 2016, WPPI Energy recognized $510,335 and $55,276 of decreases in fair value of investments.
During 2017 and 2016, WPPI Energy recognized $0 and $1,648,811 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, 2017 and 2016, respectively.

WPPI Energy sells wholesale electricity to its members under long-term contracts. As of December 31, 2017, 49 members, representing approximately 98% of WPPI Energy's existing load, have long-term contracts through December 31, 2055. The remaining two members have long-term contracts through December 31, 2037. Under the long-term contracts, WPPI Energy has agreed to sell and deliver to each member, and each member has agreed to take and pay for all of its electric power requirements, with certain exceptions related to existing member-owned hydroelectric facilities and other specified generation. WPPI Energy supplies the electric power requirements of its members from a mix of resources, including owned generation and purchased power from other entities including the Midcontinent Independent System Operator, Inc. (MISO) and PJM Interconnection, LLC (PJM) markets and as described in Note 1(r), Note 1(t) and Note 13, respectively. WPPI Energy also receives operating revenues from sales of capacity and energy to other entities including sales in the MISO and PJM markets.

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

(b) Basis of Accounting

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

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

(c) Use of Estimates

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

(d) Capital Assets

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

(e) Cash and Investments

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

(f) Restricted Cash and Investments

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

(g) Unamortized Bond Issuance Costs

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

(h) Future Recoverable Costs

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

(i) Derivative Instruments

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

(j) Regulatory Assets

Regulatory assets are for i) the CapX 2020 La Crosse project's pre-commercial and transmission-related expenses being amortized over a five-year period that commenced in 2015 and recovered over a five-year period that commenced in 2016, ii) 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 are being 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:

	2017	2016
CapX 2020 La Crosse project	$ 588,444	$ 882,667
Future recoverable costs	-	3,447,034
Settlement costs	10,438	20,874
Unamortized bond issuance costs	2,914,996	3,235,294
	$ 3,513,878	$ 7,585,869

(k) Deferred Outflows and Inflows of Resources

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

(l) Cash and Cash Equivalents

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

(m) Inventories

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

(n) Prepayments and Other Assets

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

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

	2017	2016
Capacity contract	$ 1,333,773	$ 1,500,000
Operation and maintenance costs	-	121,892
Other general operating costs	2,114,864	1,184,488
Solar purchases	193,249	249,729
	$ 3,641,886	$ 3,056,109

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:

	2017	2016
Current	$ 2,350,747	$ 1,529,087
Non-current	1,291,139	1,527,022
	$ 3,641,886	$ 3,056,109

(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:

	2017	2016
Sales, members	$ 29,455,295	$ 31,310,649
Sales, non-members	3,738,160	4,696,447
Notes, members	875,779	1,963,895
Unrestricted interest	588,994	495,274
Restricted interest	57,085	68,504
	$ 34,715,313	$ 38,534,769

(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, as of December 31, 2016, included 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, 2017 and 2016, WPPI Energy’s Board of Directors approved rates that were expected to yield net revenues 1.25 and 1.29 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, 2017 and 2016, WPPI Energy did not utilize the Rate Stabilization Fund and deferred revenues of $671,107 and $2,500,000, respectively.

(r) Owned Generation

WPPI Energy had owned generation of approximately 432 MW at December 31, 2017 and 2016, respectively, from Boswell Unit 4, Elm Road Generating Station Units 1 and 2, South Fond du Lac Units 1 and 4, the Island Street Peaking Plant and other small generation. Generally, WPPI Energy’s share of the assets and the cost to operate and maintain its owned generation is included in the accompanying financial statements.

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

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

South Fond du Lac Units 1 and 4. WPPI Energy owns two 77 MW combustion turbine units near Fond du Lac, Wisconsin. South Fond du Lac (SFDL) Units 1 and 4 are two of four combustion turbine units located on a site owned by 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:

	2017	2016
Electric plant and equipment	$ 15,468,660	$ 15,945,718
Accumulated depreciation and amortization	(1,003,613)	(606,219)
Electric plant and equipment, net	$ 14,465,047	$ 15,339,499

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 with an expected completion and in-service date in 2018. There was no Badger-Coulee project electric plant and equipment, net balance at December 31, 2017 and 2016, respectively.

(t) Purchased Power

WPPI Energy had major purchase power agreements, as further described below, of approximately 493 MW and 609 MW at December 31, 2017 and 2016, respectively. Purchase power agreements ended in 2017 with Wisconsin Power & Light (WPL) and Dynegy Marketing and Trade LLC (Dynegy) and commenced in 2017 with Invenergy Nelson LLC (Invenergy).

WEPCO Market Based Rate Tariff Agreements. WPPI Energy makes two separate purchases from WEPCO under its market rate tariff, FERC electric tariff volume no. 8 dated October 11, 2012. WPPI Energy pays formula-based average embedded cost rates under the first purchase with an initial term that runs through April 30, 2025. WPPI Energy purchased 0 MW for the contract years commencing June 1, 2015, 2016 and 2017, respectively. WPPI Energy has nominated to purchase 0 MW for the contract years commencing June 1, 2018, 2019 and 2020, 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, 2018 and 2019. WPPI Energy is permitted but not obligated to schedule energy up to the nominated demand.

WPL Power Supply Agreement. WPPI Energy purchased firm partial requirements service from WPL under a second revised power supply agreement dated February 4, 2008 that ended on June 1, 2017. WPPI Energy was charged for service under WPL's formula rate partial requirements tariff. WPPI Energy purchased 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. The initial term for the 100 MW portion runs through May 31, 2021 with the 50 MW portion having an initial term running through May 31, 2029.

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

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

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

Kendall County Generating Facility Unit 3. WPPI Energy purchased 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 Dynegy. Kendall County Generating Facility Unit 3 is a 280 MW gas-fired combined-cycle plant located near Joliet, Illinois. The term ended on September 17, 2017.

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

Member Generation under Contract. Member generation under contract to WPPI Energy consists of a number of small generating units, totaling approximately 36 MW and 32 MW of capacity in 2017 and 2016, respectively.

(u) Regulatory Liabilities

Regulatory liabilities are for i) amounts subject to refund in future periods for WPPI Energy's share of the CapX 2020 La Crosse project (see Note 13), ii) gains and other revenues received in 2017 to be applied to recoverable future costs and iii) future recoverable costs to be returned in future periods when depreciation and amortization exceed the related principal amounts. Regulatory liability balances were as follows at December 31:

	2017	2016
CapX 2020 La Crosse project	$ 29,545	$ 13,359
Regulatory credits	3,348,975	-
Future recoverable costs	7,408,618	-
	$ 10,787,138	$ 13,359

(v) Taxes

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

(w) Vacation and Sick Leave

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

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

(x) Operating Revenues and Expenses

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

(y) Fair Value Measurements

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

(z) Pensions

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

(aa) Recently Adopted Accounting Pronouncements

Effective January 1, 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*.

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

(bb) Recently Issued Accounting Pronouncements

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 83, *Certain Asset Retirement Obligation*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus 2017*, Statement No. 86, *Certain Debt Extinguishment Issues* and Statement No. 87, *Leases*. Application of these recently issued accounting pronouncements, when effective, may restate portions of these financial statements.

(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:

Fund	Held by	Purpose
Construction	WPPI Energy	To provide for the acqusition 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.

	2017	2016
Current		
Unrestricted cash and investments		
Petty cash	$ 10	$ 10
Working capital	89,401,290	74,075,560
Post retirement medical fund	401,891	552,341
Total unrestricted cash and investments	89,803,191	74,627,911
Restricted cash and investments		
Construction funds	7,699,415	13,156,933
Debt service funds	21,811,285	21,896,035
Total current restricted cash and investments	29,510,700	35,052,968
Total current	119,313,891	109,680,879
Non-current		
Unrestricted cash and investments		
Renewal and replacement fund	20,836,059	16,982,086
Self-insurance fund	4,767,261	4,727,139
Rate stabilization fund	45,089,135	45,328,852
Decommissioning fund	5,258,751	3,248,872
Post retirement medical fund	648,000	548,000
Alliance stock	740	740
Total non-current unrestricted cash and investments	76,599,946	70,835,689
Restricted cash & investments		
Debt service reserve funds	31,598,735	31,746,469
Collateral accounts	1,004	1,000
Total non-current restricted cash and investments	31,599,739	31,747,469
Investment in ATC	123,257,114	114,214,441
Total non-current	231,456,799	216,797,599
Total cash and investments	$ 350,770,690	$ 326,478,478
Current & non-current cash and investments	$ 227,513,576	$ 212,264,037
Investment in ATC	123,257,114	114,214,441
Total cash and investments	$ 350,770,690	$ 326,478,478

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 $3,357,236 ($2,994,884 in book balances) at December 31, 2017 and $957,495 ($690,706 in book balances) at December 31, 2016. WPPI Energy also holds collateral accounts with MISO ($501) and PJM ($503). With the exception of WPPI Energy’s investment in the LGIP, all cash and investments held as of December 31, 2017 and 2016 were held in custody on behalf of and in WPPI Energy's name.

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

  The LGIP is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission as an investment company, but operates under the statutory authority in accordance with Chapter 25 of the Wisconsin Statutes. Participants in the LGIP have the right to withdraw their funds in total on one day’s notice. WPPI Energy held $15,126,502 and $10,011,471 in the LGIP which is included within WPPI Energy’s cash and investments as of December 31, 2017 and 2016, respectively.

- **Concentration risk** – Investing 5% or more of WPPI Energy’s portfolio in the securities of a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments issued and guaranteed by U.S. agencies, investments in mutual funds, external investment pools and other pooled investments are excluded. There were no investments of 5% or more in a single-issuer security in WPPI’s Energy’s portfolio at December 31, 2017 and 2016, 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	2017	2016
Money market mutual funds	AAAm	Aaa-mf	$ 84,060,844	$ 78,409,988
U.S. treasury/agency securities	AA+	Aaa	84,338,351	82,330,367
Municipal bonds	AA	NR	1,548,001	2,980,706
Municipal bonds	AA	Aa3	1,425,499	1,521,738
Municipal bonds	A+	A1	1,524,477	-
Municipal bonds	AAA	Aa1	492,688	-
Corporate bonds	AAA	Aaa	1,021,254	508,073
Corporate bonds	AA+	Aaa	642,660	1,499,640
Corporate bonds	AA+	Aa1	764,344	-
Corporate bonds	AA	Aa1	-	763,422
Corporate bonds	AA	Aa2	647,729	303,944
Corporate bonds	AA	A1	768,885	770,280
Corporate bonds	AA-	Aa1	-	1,497,125
Corporate bonds	AA-	Aa2	1,059,576	2,895,598
Corporate bonds	AA-	Aa3	1,674,492	4,054,516
Corporate bonds	AA-	A1	1,020,925	1,298,911
Corporate bonds	A+	Aa3	826,299	1,993,640
Corporate bonds	A+	A1	4,162,168	1,874,812
Corporate bonds	A+	A2	1,528,810	-
Corporate bonds	A	A1	549,499	2,063,238
Corporate bonds	A	A2	2,752,310	2,996,400
Corporate bonds	A	A3	622,648	
Corporate bonds	A-	A1	811,968	
Corporate bonds	A-	A2	1,623,072	851,079
Corporate bonds	A-	A3	1,706,570	1,099,901
Corporate bonds	BBB+	A3	1,425,605	771,923
Bank deposits, certificates of deposit, commercial paper, Alliance stock & LGIP	n/a	n/a	30,514,902	21,778,736
			$ 227,513,576	$ 212,264,037

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, 2017 and 2016. 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 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	2017	2016
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
			$ 8,092,763	$ 8,092,763

- **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, 2017, WPPI Energy's cash and investments were classified by maturity as follows:

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

As of December 31, 2016, WPPI Energy's cash and investments were classified by maturity as follows:

		Maturity in Years		
	Total	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	-
Municpal 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
	$212,264,037	$131,690,232	$ 80,573,065	$ 740

- **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, 2017, WPPI Energy'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	$ 84,060,844	$ -	$ 84,060,844	$ -
U.S. treasury securities	60,664,903	60,664,903	-	-
U.S. agency securities	23,673,448	-	23,673,448	-
Municipal bonds	4,990,665	-	4,990,665	-
Corporate bonds	23,608,814	-	23,608,814	-
Negotiable certificates of deposit	10,648,243	-	10,648,243	-
Commercial paper	693,627	-	693,627	-
Total investments at fair value	$208,340,544	$ 60,664,903	$147,675,641	$ -

As of December 31, 2016, WPPI Energy'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	$ 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	$200,459,770	$ 58,123,943	$142,335,827	$ -

(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, 2017 and 2016. 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, 2017, WPPI Energy had outstanding commitments to fund ATC of $1,337,339. The amount was paid in January, 2018.

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

	2017	2016
Operating revenues	$ 721.7	$ 650.8
Operating expenses	(344.9)	(322.5)
Other income, net	5.3	3.2
Interest expense, net	(109.4)	(98.8)
Earnings before members' income taxes	$ 272.7	$ 232.7
Current assets	$ 87.7	$ 75.8
Net property, plant and equipment	4,586.1	4,268.5
Regulatory and other assets	12.8	44.4
Total assets	$ 4,686.6	$ 4,388.7
Current liabilities	$ 767.2	$ 495.1
Long-term debt	1,790.6	1,865.3
Regulatory and other liabilities	240.3	271.5
Members' equity	1,888.5	1,756.8
Total liabilities and capitalization	$ 4,686.6	$ 4,388.7

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 particpate in investments outside the traditional footprint will be able to do so through ATC Development LLC, while the remaining ATC owners will have the opportunity to continue to invest only in the traditional footprint. WPPI Energy has elected not to participate in ATC Development LLC and will have the opportunity to continue to invest only in the traditional footprint. On July 18, 2017, FERC approved ATC's authorization request to sell its interest in Duke-American Transmission Company LLC (DATC) to ATC Development LLC. ATC sold the majority of its interest in DATC at an immaterial gain in October, 2017 and plans to sell the remainder of its interest in DATC to ATC Development LLC in 2018. As a result of the sale, WPPI Energy received a cash distribution of $1,521,872 in 2017.

(4) Capital Assets

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

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

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

Construction work in progress consisted primarily of construction at Boswell Unit 4 related to various capital projects and the Badger-Coulee project at December 31, 2017 and 2016.

(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:

	2017	2016
Beginning of year	$ 5,275,119	$ 3,439,530
Accretion	193,665	186,778
Cash flow revisions	-	1,648,811
End of year	$ 5,468,784	$ 5,275,119

(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. 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 $85,721,251 and $89,250,873 at December 31, 2017 and 2016, respectively. The U.S. government securities required to be held in the escrow account are carried at cost.

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.

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

	2017	2016
2008 Series A 5.00% to 5.25%		
Due July 1, 2016 - 2037	$ 78,850,000	$ 94,540,000
2013 Series A 4.00% to 5.00%		
Due July 1, 2016 - 2037	167,155,000	174,905,000
2014 Series A 5.00%		
Due July 1, 2025 - 2037	66,410,000	66,410,000
2016 Series A 3.00% to 5.00%		
Due July 1, 2019 - 2037	75,555,000	75,555,000
Total revenue bonds outstanding	387,970,000	411,410,000
Current maturities	(24,365,000)	(23,440,000)
Unamortized premium	42,170,727	46,394,808
Revenue bonds, net of unamortized premium	$ 405,775,727	$ 434,364,808

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
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	17,265,000	14,483,831	31,748,831
2023-2027	84,965,000	59,670,106	144,635,106
2028-2032	93,105,000	38,092,344	131,197,344
2033-2037	97,920,000	13,710,244	111,630,244
Total	$ 387,970,000	$ 195,382,738	$ 583,352,738

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

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

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	$ 457,357,554	$ 66,366,013	$ (89,358,759)	$ 434,364,808
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	$ 5,237,049	$ 2,339,349	$ (17,000)	$ 7,559,398

(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, 2017, 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, 2017 and 2016, 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 $75,030,622 and $77,778,411, or approximately 15.9% and 16.3%, of total operating revenues for the years ended December 31, 2017 and 2016, respectively, and have long-term contracts through December 31, 2055 (see Note 1(a)).

(9) Employee Benefits

(a) Retention Plan

WPPI Energy maintains an employee retention plan with payment obligations out until 2023. The plan will make payments to specific employees who complete defined years of continuing employment. Plan benefit expenses accrued for the years ended December 31, 2017 and 2016 were $248,453 and $229,291, respectively.

(b) Simplified Employee Pension 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 year ended December 31, 2016 was $947,052. On December 31, 2016, WPPI Energy terminated the SEP plan.

(c) Wisconsin Retirement System

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

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

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

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

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

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

The net pension liability was most recently measured as of December 31, 2016. WPPI Energy did not recognize a liability for its proportionate share of the net pension liability nor any pension expense since the measurement date preceded WPPI Energy's participation in the WRS. In subsequent years when the measurement date reflects WPPI Energy's effective participation in the WRS, it will recognize its proportionate share of the net pension liability, based on its share of contributions to the pension plan relative to the contributions of all participating employers, and pension expense, as applicable.

WPPI Energy reported a deferred outflow of resources of $662,101 resulting from the WRS employer's contributions subsequent to the measurement date. During 2017, WPPI Energy provided additional voluntary employer contributions of $65,244 to the WRS on behalf of certain employees, which does not impact WPPI Energy's proportionate share of the net pension liability nor its pension expense.

(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, 2017, there were 105 active participants, 7 retired participants and $63,872 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 2017 and 2016. 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, 2017, other postemployment benefit (OPEB) expense was $213,985. At December 31, 2017, the net OPEB obligation of $1,798,560 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* (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. 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. In accordance with the minimum frequency provisions under GASB 45, the actuarial valuation date used to determine the OPEB obligations was December 31, 2016. No significant changes in long-term assumptions have occurred since this the previous valuation, as determined by Management. In the actuarial valuation, the projected unit credit actuarial cost method was used. A 30-year amortization period 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:

	2017	2016	2015
Actuarial accrued liability	$ 2,213,665	$ 2,213,665	$ 2,178,048
Present value of future normal costs	1,701,241	1,701,241	2,288,324
Actuarial present value of total projected benefits	3,914,906	3,914,906	4,466,372
Schedule of funded status			
Actuarial accrued liability	2,213,665	2,213,665	2,178,048
Actuarial value of assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	2,213,665	2,213,665	2,178,048
Funded ratio	-	-	-
Covered payroll	9,867,168	9,093,402	8,857,872
UAAL as a percentage of covered payroll	22.43%	24.34%	24.59%
Determination of annual required contribution			
Normal cost for benefits	133,245	161,253	190,487
Amortization of unfunded actuarial liability	112,940	111,123	117,009
Annual required contribution (ARC)	246,185	272,376	307,496
Net OPEB obligation			
Annual required contribution (ARC)	246,185	272,376	307,496
Interest on net OPEB obligation	49,454	43,860	37,259
Adjustment to annual required contribution	(81,654)	(72,417)	(61,519)
Contributions made	(63,872)	(56,527)	(63,234)
Change in net OPEB obligation	150,113	187,292	220,002
Net OPEB obligation, beginning of year	1,648,447	1,461,155	1,241,153
Net OPEB obligation, end of year	$ 1,798,560	$ 1,648,447	$ 1,461,155

(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, 2017 and 2016. All other power contracts fall under the normal purchases and sales contracts exception within GASB 53, or are contracts where WPPI Energy expects to take physical delivery of the power.

(11) Menasha Asset Purchase and Lease

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

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

At December 31, 2016, WPPI Energy held a receivable for both the lease principal and interest to be received, along with a deferred inflow of resources for the unearned interest portion of the lease. These amounts were extinguished in full with the application of the final payment received by WPPI Energy in 2017.

At December 31, 2016, WPPI Energy held a deferred outflow of resources for the acquisition premium which was being amortized over the 20 year life of the lease. The outstanding acquisition premium of $1.38 million was expensed in 2017.

(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 2017 and 2016, 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:

	2017	2016
Beginning of year	$ 4,812,598	$ 4,751,286
Additions, representing interest	65,890	61,312
End of year	$ 4,878,488	$ 4,812,598

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:

	2017	2016
Beginning of year	$ 8,648,115	$ 7,592,025
Additions	1,414,950	1,448,508
Usage	(2,371,103)	(392,418)
End of year	$ 7,691,962	$ 8,648,115

(13) Commitments and Contingencies

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

WPPI Energy has a mix of purchase power agreements of varying durations with a number of suppliers used to meet a portion of the electric power requirements of its members. The major purchase power agreements are described in Note 1(t). In addition, WPPI Energy has purchase power agreements from wind, run of river hydro, landfill gas and solar resources with name plate capacity totaling approximately 176 MW and 174 MW at December 31, 2017 and 2016, respectively.

WPPI Energy purchases power from WEPCO and WPS and had purchased power from WPL that provide system average cost power under formula rate tariffs (see Note 1(t)). The capacity charges for each calendar year are trued-up in the following year. The exact timing and mechanics of the true-up vary by the formula rate tariff. 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 Point Beach Solar Energy Center through May 31, 2042. Point Beach Solar LLC plans to develop and construct the Point Beach Solar Energy Center on a site adjacent to Point Beach Nuclear Plant (see Note 1(t)). It is expected that the Point Beach Solar Energy Center will have an installed capacity of approximately 99 MW and begin commercial operation in 2021.

In July 2017, WPPI Energy entered into a purchase power agreement to buy the electricity from the planned Bishop Hill III Wind Energy Center through May 31, 2040. Bishop Hill Energy III LLC plans to develop and construct the Bishop Hill III Wind Energy Center in Henry County, Illinois. It is expected that the Bishop Hill III Wind Energy Center will have an installed capacity of approximately 132 MW, although the maximum output will not exceed 119 MW due to transmission interconnection rights limitations and begin commercial operation in mid-2018.

WPPI Energy participates in the MISO market. MISO routinely trues-up revenues and expenses for up to 105 days. Under special circumstances, MISO has trued-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 prior years. 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 subsequent orders have been challenged by stakeholders opposing its approval of MISO's revised SSR cost allocation methodology.

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 a certain generation resource. 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.

In October 2017, FERC ordered a reduction in total costs paid for a certain generation resource which resulted in refunds for some LSEs, including WPPI Energy. In December 2017, WPPI Energy received a refund totaling $3.2 million, including interest, for certain SSR charges it previously paid related to the order issued in October 2017. The issuance of this order triggered a requirement that MISO refund all previously suspended amounts due as a result of the revised SSR cost allocation methodology. In December 2017, MISO filed a refund report for such refunds and FERC subsequently issued an order on petition for emergency relief and emergency motion that directed MISO to refrain from implementing the refund report until FERC has issued an order on such refund report. 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 February 12, 2015, a group of organizations filed a second complaint with FERC seeking, among other things, to lower the base return on equity (ROE) of certain transmission-owning members of MISO, including ATC. During 2017, WPPI Energy received refunds totaling $5.0 million, including interest, for certain transmission service charges it previously paid related to the first complaint that covered the period from November 12, 2013 through February 11, 2015. The second complaint covers the period from February 12, 2015 through May 11, 2016. On June 30, 2016, the administrative law judge issued an initial decision on this complaint with a recommeded 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. As of December 31, 2017 and 2016, WPPI Energy recorded a regulatory liability of $29,545 and $13,359, respectively, for its share of the CapX 2020 La Crosse project, subject to refund (see Note 1(u)).

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 (CO_2) emissions guidelines for existing EGUs. The rule, known as the Clean Power Plan, establishes interim and final CO_2 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 CO_2 emissions. On February 9, 2016, the U.S. Supreme Court granted a stay of the Clean Power Plan pending judicial review. On October 16, 2017, the EPA published a proposed rule to repeal the Clean Power Plan. WPPI Energy is unable to predict the outcome of these legal challenges or the potential impact on the final form and timing of these regulations.

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

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Funding Progress - Other Postemployment Benefits (OPEB)

Fiscal Year End	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Ratio of UAAL to Covered Payroll
12/31/15	12/31/15	$ -	$ 2,178,048	$ 2,178,048	0.00%	$8,857,872	24.59%
12/31/16	12/31/16	$ -	$ 2,213,665	$ 2,213,665	0.00%	$9,093,402	24.34%
12/31/17	12/31/16	$ -	$ 2,213,665	$ 2,213,665	0.00%	$9,867,168	22.43%