

WPPI Energy

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2019 and 2018

WPPI Energy

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December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
WPPI Energy
Sun Prairie, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of WPPI Energy as of and for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 5, WPPI Energy adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective January 1, 2019. This standard requires the measurement and recognition of a liability and corresponding deferred outflow of resources related to the legally enforceable asset retirement obligations (AROs) for closure of the ash and scrubber ponds at the Boswell site and removal and dismantle of ERGS Units 1 and 2. The cumulative effect of the change is shown in the current year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 26, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of WPPI Energy's (WPPI) condensed financial statements provides an overview of WPPI's activities for the years ended December 31, 2019 and 2018. The information presented should be read in conjunction with WPPI's financial statements and the accompanying notes.

WPPI 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 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'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 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 had several significant events occur in 2019 and 2018. The following is a description of these events and their impact on WPPI's financial statements and the accompanying notes.

2019

Wholesale Power Cost to Members

In 2019 and similar to 2018, WPPI passed lower power costs on to its members through its wholesale rate, including the power cost adjustment clause. The lower wholesale rate paid by members combined with lower megawatt hour (MWh) sales to members resulted in lower revenue from energy sales to members in 2019. The decrease in WPPI's power costs in 2019, particularly in purchased power, was due primarily to lower market prices as a result of lower natural gas prices and mild weather, including cooler summer weather in 2019 compared to 2018. The application of certain refunds and lower debt service, as described below, also impacted the decrease in WPPI's power costs in 2019.

Refunds

WPPI applied \$4.0 million of refunds received but not recognized in 2018 to recoverable costs to members in 2019, as planned. This amount had been reported as a regulatory credit under deferred inflows of resources at the end of 2018 and its application in 2019 lowered purchased power and transmission expense to members in the amount of \$1.5 million and \$2.5 million, respectively, and decreased WPPI's unrestricted cash and investments.

Debt Service

Debt service was lower in 2019 as a result of the early principal payments made in 2018 on the Power Supply System Revenue Bonds, Series 2008 A bonds (2008 A bonds), maturing on July 1, 2019 and July 1, 2020.

2018

Bond Issuance

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

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

Purchased Power and Transmission

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

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

Badger-Coulee Project Energized

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

Refunds

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

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

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

Condensed Statements of Net Position
(in millions)

| | 2019 | 2018 | 2017 | 2019- 2018 Change | 2018- 2017 Change |
|--|--------------|--------------|--------------|-------------------------|-------------------------|
| Assets | | | | | |
| Current assets | \$ 140.7 | \$ 148.8 | \$ 168.0 | \$ (8.1) | \$ (19.2) |
| Non-current assets | 261.7 | 249.6 | 239.7 | 12.1 | 9.9 |
| Capital assets, net | <u>373.4</u> | <u>387.0</u> | <u>397.9</u> | <u>(13.6)</u> | <u>(10.9)</u> |
| Total assets | 775.8 | 785.4 | 805.6 | (9.6) | (20.2) |
| Deferred Outflows of Resources | 23.8 | 19.8 | 20.7 | 4.0 | (0.9) |
| Liabilities | | | | | |
| Current liabilities | 55.7 | 56.0 | 64.0 | (0.3) | (8.0) |
| Non-current liabilities | 12.6 | 8.1 | 7.9 | 4.5 | 0.2 |
| Long-term debt, including unamortized premium | <u>343.3</u> | <u>366.4</u> | <u>405.8</u> | <u>(23.1)</u> | <u>(39.4)</u> |
| Total liabilities | 411.6 | 430.5 | 477.7 | (18.9) | (47.2) |
| Deferred Inflows of Resources | 84.2 | 83.0 | 69.6 | 1.2 | 13.4 |
| Net Position | 303.8 | 291.7 | 279.0 | 12.1 | 12.7 |

Assets & Deferred Outflows of Resources

Total assets at the end of 2019 were \$775.8 million, which was a decrease of \$9.6 million from 2018. Total assets at the end of 2018 were \$785.4 million, which was a decrease of \$20.2 million from 2017.

Current assets decreased \$8.1 million in 2019 due primarily to applying refunds received but not recognized in 2018 to recoverable costs to members. Current assets decreased \$19.2 million in 2018 due primarily to using available funds on hand to make the early principal payments on the 2008 A bonds, maturing on July 1, 2019 and July 1, 2020. The change in current assets in 2019 and 2018 was also impacted by reclassification to non-current assets for certain monies moved to the renewal and replacement fund, continued construction fund spend and voluntary capital calls made to ATC.

Non-current assets increased \$12.1 million in 2019 and \$9.9 million in 2018 due primarily to increases in WPPI's investment in ATC and reserve funds. WPPI made capital contributions to ATC to meet voluntary capital calls of \$5.7 million in 2019 and \$5.3 million in 2018. Contributions to the renewal and replacement fund, net of usage, was \$4.5 million in 2019 and \$6.0 million in 2018. Usage in 2019 and 2018 was primarily for capital additions at Boswell Unit 4 and Elm Road Generating Station (ERGS) Units 1 and 2. The change in non-current assets was also impacted by WPPI's proportionate share of the net pension amount of the Wisconsin Retirement System (WRS), initially recognized as a net pension asset in 2018 and subsequently recognized as a net pension liability in 2019.

Capital assets net of accumulated depreciation decreased \$13.6 million in 2019 and \$10.9 million in 2018 as a result of annual depreciation exceeding capital additions. Construction work in progress decreased in 2018 due primarily to the completion of the Badger-Coulee project.

Deferred outflows of resources increased \$4.0 million in 2019 due primarily to higher pension-related amounts associated with the WRS and amounts related to asset retirement obligations as a result of WPPI's adoption of GASB 83, *Certain Asset Retirement Obligations* (GASB 83). This was partially offset by ongoing amortization of loss on reacquired debt. Deferred outflows of resources decreased \$0.9 million in 2018 due primarily to lower unamortized loss on reacquired debt as a result of the issuance of the 2018 A bonds and early principal payments made on the remaining 2008 A bonds, net of ongoing amortization. This was partially offset by the initial recognition of pension-related amounts associated with the WRS.

Liabilities & Deferred Inflows of Resources

Current liabilities decreased \$0.3 million in 2019 and \$8.0 million in 2018. The change in current liabilities in 2018 was due primarily to lower current maturities of long-term debt and lower accounts payable for purchased power.

Non-current liabilities increased \$4.5 million in 2019 due primarily to increases in amounts related to asset retirement obligations resulting from WPPI's adoption of GASB 83 and WPPI's aforementioned proportionate share of the net pension liability of the WRS. Non-current liabilities increased \$0.2 million in 2018.

Long-term debt including unamortized premium decreased \$23.1 million in 2019 and \$39.4 million in 2018 due to the reclassification of certain long-term debt to current maturities. The change in long-term debt including unamortized premium in 2018 was also impacted by refunding certain 2008 A bonds and early principal payments made on the 2008 A bonds, maturing July 1, 2019 and July 1, 2020.

Deferred inflows of resources increased \$1.2 million in 2019 due primarily to the change in regulatory credits with higher future recoverable costs offset by certain refunds that were returned to members in 2019. Deferred inflows of resources increased \$13.4 million in 2018. The increase in deferred inflows of resources in 2018 was due primarily to the initial recognition of pension-related amounts associated with the WRS and increases in regulatory credits with higher future recoverable costs and certain refunds to be returned to members in 2019. Higher future recoverable costs in 2019 and 2018 resulted from principal amounts recovered in rates exceeding the related depreciation and amortization recognized.

Net Position

Net position was \$303.8 million at the end of 2019 and \$291.7 million at the end of 2018. The change in net position results primarily from margin collected through WPPI's wholesale rates to its members and WPPI's share of ATC earnings that are retained by ATC. Net position was also impacted by a cumulative effect of change in accounting principle. WPPI recognized a \$1.3 million decrease to net position in 2019 and a \$0.3 million increase to net position in 2018 as result of recently adopted accounting pronouncements.

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

| | 2019 | 2018 | 2017 | 2019- 2018 Change | 2018- 2017 Change |
|--|----------------|----------------|----------------|-------------------------|-------------------------|
| Operating revenues | \$429.5 | \$451.5 | \$471.3 | \$ (22.0) | \$ (19.8) |
| Operating expenses | 418.8 | 431.9 | 433.6 | (13.1) | (1.7) |
| Operating income | 10.7 | 19.6 | 37.7 | (8.9) | (18.1) |
| Non-operating revenues (expenses), net | 6.3 | (1.2) | (6.2) | 7.5 | 5.0 |
| Future recoverable costs | (3.6) | (6.0) | (10.8) | 2.4 | 4.8 |
| Change in net position | 13.4 | 12.4 | 20.7 | 1.0 | (8.3) |
| Net position, beginning of year | 291.7 | 279.0 | 258.3 | 12.7 | 20.7 |
| Cumulative effect of change in accounting principle | (1.3) | 0.3 | - | (1.6) | 0.3 |
| Net position, end of year | <u>\$303.8</u> | <u>\$291.7</u> | <u>\$279.0</u> | <u>\$ 12.1</u> | <u>\$ 12.7</u> |

Operating Revenues

Total operating revenues in 2019 were \$429.5 million, which was a decrease of \$22.0 million from 2018. Total operating revenues in 2018 were \$451.5 million, which was a decrease of \$19.8 million from 2017. Lower total operating revenues in 2019 and 2018 were due primarily to WPPI passing lower power costs on to its members through its wholesale rate, including the power cost adjustment clause, which resulted in lower revenue from energy sales to members.

Revenue from energy sales to members decreased \$13.0 million in 2019 due primarily to lower wholesale rates charged to members and lower MWh sales. Revenue from energy sales to members decreased \$23.0 million in 2018 due primarily to lower wholesale rates charged to members as a result of lower energy costs overall, including the impact of 2017 Tax Reform.

Energy Sales to Members (MWh)

| | 2019 | 2018 | 2017 | % Change 2019- 2018 | % Change 2018- 2017 |
|-------------------------|-----------|-----------|-----------|------------------------------|------------------------------|
| Energy sales to members | 4,942,894 | 5,084,754 | 5,002,230 | -2.8% | 1.6% |

Energy sales to members decreased 2.8% in 2019 due primarily to increased offsets to load as a result of higher member hydro production and self-generation at a large customer, and variations in weather. Energy sales to members increased 1.6% in 2018 due primarily to overall variations in weather.

Revenue from sales to others decreased \$8.3 million in 2019 as a result of lower market prices and the availability and dispatch of WPPI's power supply resources. Revenue from sales to others increased \$2.5 million in 2018 due primarily to the availability and dispatch of WPPI's power supply resources. Revenue from sales to others includes revenue from WPPI's owned transmission, consisting of the CapX 2020 La Crosse project and the Badger-Coulee project, which was \$2.8 million in 2019 and \$2.6 million in 2018.

Operating Expenses

Operating expenses were \$418.8 million in 2019, which was a decrease of \$13.1 million from 2018. Operating expenses were \$431.9 million in 2018, which was a decrease of \$1.7 million from 2017. The decrease in operating expenses in 2019 compared to 2018 was due primarily to lower purchased power, transmission and fuel expense. The decrease in operating expenses in 2018 compared to 2017 was due primarily to lower purchased power expense, partially offset by higher transmission and fuel expense and depreciation and amortization.

Purchased power expense decreased \$5.7 million in 2019 due primarily to lower market energy costs and lower MWh sales to members, including the application of certain refunds of purchased power costs previously paid by WPPI. This was partially offset by increases associated with purchasing a full year of output from Bishop Hill III. Purchased power expense decreased by \$14.1 million in 2018 due primarily to lower energy costs overall, including lower nominations and costs under formula rate tariffs that were also impacted by 2017 Tax Reform. In addition, the changes in WPPI's power supply portfolio in 2019 and 2018 provided lower purchased power costs.

Transmission expense decreased by \$2.5 million in 2019 and increased by \$5.4 million in 2018. The change in transmission in 2019 and 2018 was due primarily to recognizing certain refunds of transmission costs in 2019 and 2017 previously paid by WPPI.

Fuel expense decreased \$5.5 million in 2019 and increased \$1.9 million in 2018 due primarily to the corresponding change in total production at WPPI's owned generating units.

Owned Generation Production by Unit (MWh)

| | | | | % | % |
|--------------------|------------------|------------------|------------------|-------------------------|-------------------------|
| | 2019 | 2018 | 2017 | Change 2019- 2018 | Change 2018- 2017 |
| Boswell Unit 4 | 650,971 | 833,135 | 792,658 | -21.9% | 5.1% |
| ERGS Unit 1 | 364,791 | 337,253 | 338,752 | 8.2% | -0.4% |
| ERGS Unit 2 | 333,424 | 371,208 | 320,022 | -10.2% | 16.0% |
| SFDL Units 1 and 4 | 12,438 | 31,576 | 10,488 | -60.6% | 201.1% |
| ISPP | 7,921 | 12,378 | 5,736 | -36.0% | 115.8% |
| Total | <u>1,369,545</u> | <u>1,585,550</u> | <u>1,467,656</u> | <u>-13.6%</u> | <u>8.0%</u> |

The production at Boswell Unit 4 was higher in 2018 compared to 2019 and 2017 due primarily to lower outage hours. Boswell Unit 4 was offline for approximately six and a half weeks during the first quarter of 2019 for an unplanned outage to repair numerous leaks in the hot reheat steam piping.

ERGS Units 1 and 2 have burned blends of sub-bituminous coal ranging from 0%-100%. The production at ERGS Units 1 and 2 has continued to increase due primarily to expanded use of sub-bituminous coal mined from the western United States which has resulted in lower fuel costs and more favorable dispatch economics. ERGS Unit 2 was offline for approximately six and a half weeks during the second quarter of 2019 for a planned turbine valve outage.

The production at Island Street Peaking Plant (ISPP) was lower in 2017 compared to 2019 and 2018 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 market footprint of the Midcontinent Independent System Operator, Inc.

Non-Operating Revenues (Expenses), Net

The change in net non-operating revenues (expenses) was \$7.5 million in 2019 and \$5.0 million in 2018, and due primarily to higher investment income and lower interest expense. Investment income includes ATC earnings distributed as cash dividends which increased in 2019 and 2018 and were used to lower wholesale rates paid by members. This was partially offset by expensing the outstanding loss on reacquired debt associated with 2008 A bonds that were called in July, 2018.

Interest expense decreased \$1.5 million in 2019 and \$1.8 million in 2018 as a result of i) scheduled annual payments of principal, ii) refunding existing debt through the issuance of the 2018 A bonds and 2016 A bonds and iii) early principal payments on the 2008 A bonds, maturing July 1, 2019 and July 1, 2020.

Future Recoverable Costs

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. Future recoverable costs equaled \$(3.6) million in 2019, a change of \$2.4 million from 2018. Future recoverable costs equaled \$(6.0) million in 2018, a change of \$4.8 million from 2017.

Contact Information

This financial report is designed to provide a general overview of WPPI'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, 2019 and 2018

| | 2019 | 2018 |
|---|--------------------|--------------------|
| Assets | | |
| Current assets | | |
| Unrestricted cash and investments | \$ 73,310,816 | \$ 79,927,637 |
| Restricted cash and investments | 18,576,213 | 21,553,939 |
| Receivables | 34,218,185 | 32,876,503 |
| Inventories | 11,554,367 | 11,635,329 |
| Prepayments and other assets | 3,024,051 | 2,851,526 |
| Total current assets | 140,683,632 | 148,844,934 |
| Non-current assets | | |
| Unrestricted cash and investments | 89,255,621 | 83,365,451 |
| Restricted cash and investments | 27,734,667 | 27,667,472 |
| Investment in ATC | 138,674,116 | 129,508,519 |
| Receivables from members | 3,141,597 | 3,457,798 |
| Regulatory assets | 2,020,510 | 2,527,630 |
| Prepayments and other assets | 867,488 | 1,068,780 |
| Net pension asset | - | 2,003,465 |
| Total non-current assets | 261,693,999 | 249,599,115 |
| Capital assets | | |
| Electric plant and equipment | 579,158,041 | 579,369,337 |
| Accumulated depreciation and amortization | (210,820,958) | (196,758,266) |
| Electric plant and equipment, net | 368,337,083 | 382,611,071 |
| Land | 1,346,871 | 1,317,182 |
| Construction work in progress | 3,762,108 | 3,033,425 |
| Total capital assets | 373,446,062 | 386,961,678 |
| Total assets | 775,823,693 | 785,405,727 |
| Deferred Outflows of Resources | | |
| Unamortized loss on reacquired debt | 14,256,793 | 16,089,592 |
| Other postemployment benefits | 93,081 | 111,904 |
| Pension | 6,380,233 | 3,610,835 |
| Asset retirement obligation | 3,012,092 | - |
| Total deferred outflows of resources | 23,742,199 | 19,812,331 |

WPPI Energy
Statements of Net Position (cont'd)
December 31, 2019 and 2018

| | 2019 | 2018 |
|---|--------------------|--------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 28,769,184 | \$ 29,339,064 |
| Restricted current maturities of long-term debt | 18,930,000 | 18,150,000 |
| Restricted accrued interest | 8,007,222 | 8,460,972 |
| Total current liabilities | 55,706,406 | 55,950,036 |
| Non-current liabilities | | |
| Asset retirement obligations | 7,717,630 | 5,669,593 |
| Benefits liabilities | 4,877,089 | 2,444,366 |
| Total non-current liabilities | 12,594,719 | 8,113,959 |
| Long-term debt | | |
| Revenue bonds, net of unamortized premium | 343,291,533 | 366,431,567 |
| Total liabilities | 411,592,658 | 430,495,562 |
| Deferred Inflows of Resources | | |
| Rate stabilization | 47,000,936 | 46,159,143 |
| Pension | 4,017,869 | 4,970,674 |
| Other postemployment benefits | 95,041 | - |
| Regulatory credits | 33,069,401 | 31,941,638 |
| Total deferred inflows of resources | 84,183,247 | 83,071,455 |
| Net Position | | |
| Net investment in capital assets | 20,888,193 | 19,051,485 |
| Restricted | | |
| Debt service | 9,465,000 | 9,075,000 |
| Debt service reserve | 27,733,645 | 27,666,460 |
| Other | 1,022 | 1,012 |
| Unrestricted | 245,702,127 | 235,857,084 |
| Total net position | 303,789,987 | 291,651,041 |

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WPPI Energy
Statements of Revenue, Expenses, and Changes in Net Position
For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|----------------|----------------|
| Operating revenues | | |
| Sales to members | \$ 349,325,980 | \$ 362,770,819 |
| Sales to others | 79,025,993 | 87,327,375 |
| Rate stabilization | (841,792) | - |
| Other income | 2,020,241 | 1,440,976 |
| Total operating revenues | 429,530,422 | 451,539,170 |
| Operating expenses | | |
| Purchased power | 268,494,053 | 274,186,539 |
| Transmission | 62,664,459 | 65,144,292 |
| Fuel expense | 28,949,035 | 34,475,780 |
| Operation and maintenance | 15,448,593 | 15,915,102 |
| Customer service and administrative and general | 19,648,800 | 18,841,194 |
| Depreciation and amortization | 16,708,370 | 16,491,956 |
| Taxes | 6,906,117 | 6,948,775 |
| Total operating expenses | 418,819,427 | 432,003,638 |
| Operating income | 10,710,995 | 19,535,532 |
| Non-operating revenues (expenses) | | |
| Investment income | 13,757,520 | 11,564,607 |
| Equity in earnings of ATC | 3,481,905 | 2,988,297 |
| Allowance for funds used during construction | 70,226 | 383,483 |
| Net increase (decrease) in fair value of investments | 1,828,362 | 28,405 |
| Gain on sale of allowances | 1,587,659 | 1,005,393 |
| Interest expense | (16,493,738) | (18,027,405) |
| Amortization of debt-related costs | 2,164,337 | 1,041,054 |
| Other | (130,575) | (143,657) |
| Total non-operating revenues (expenses), net | 6,265,696 | (1,159,823) |
| Future recoverable costs | (3,567,866) | (5,966,835) |
| Change in net position | 13,408,825 | 12,408,874 |
| Net position, beginning of year | 291,651,041 | 278,989,521 |
| Cumulative effect of change in accounting principle | (1,269,879) | 252,646 |
| Net position, end of year | \$ 303,789,987 | \$ 291,651,041 |

WPPI Energy
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|----------------|----------------|
| Cash flows provided by operating activities | | |
| Cash receipts from members and others | \$ 431,596,033 | \$ 456,508,754 |
| Cash payments for purchased power | (334,647,911) | (338,523,524) |
| Cash payments for fuel | (29,438,755) | (33,816,272) |
| Cash payments for operations and maintenance | (11,437,632) | (12,285,873) |
| Cash payments for payroll and ad valorem taxes | (6,899,100) | (6,949,117) |
| Cash payments to employees | (11,391,944) | (10,069,805) |
| Cash payments for customer service & adm. and general | (10,372,617) | (11,701,615) |
| Net cash provided by operating activities | 27,408,074 | 43,162,548 |
| Cash flows provided by (used in) non-capital financing activities | | |
| Cash receipts from outside parties | 1,082,271 | 1,063,611 |
| Cash payments to outside parties | (799,172) | (1,153,499) |
| Net cash provided by (used in) non-capital financing activities | 283,099 | (89,888) |
| Cash flows provided by investing activities | | |
| Investments purchased | (94,633,684) | (71,592,594) |
| Investment in ATC | (5,683,692) | (5,349,357) |
| Investments sold | 87,632,919 | 77,934,474 |
| Investment income | 4,333,719 | 3,821,255 |
| Cash distributions received from ATC | 8,574,774 | 8,224,186 |
| Net cash provided by investing activities | 224,036 | 13,037,964 |
| Cash flows used in capital and related financing activities | | |
| Acquisition and construction of capital assets | (5,331,438) | (5,539,874) |
| Bonds issued | - | 41,340,000 |
| Principal paid | (18,150,000) | (39,560,000) |
| Refunded principal | - | (47,300,000) |
| Debt issuance costs and escrow payment | - | 5,784,930 |
| Interest paid | (16,947,488) | (19,195,218) |
| Net cash used in capital and related financing activities | (40,428,926) | (64,470,162) |
| Change in cash and cash equivalents | (12,513,717) | (8,359,538) |
| Cash and cash equivalents, beginning of year | 104,479,975 | 112,839,513 |
| Cash and cash equivalents, end of year | \$ 91,966,258 | \$ 104,479,975 |

WPPI Energy
Statements of Cash Flows (cont'd)
Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|---------------|----------------|
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 10,710,995 | \$ 19,535,531 |
| Depreciation and amortization | 16,708,370 | 16,491,956 |
| Other non-operating revenues (expenses), net | 2,172,875 | 1,190,965 |
| Changes in assets, liabilities, deferred outflows and inflows of resources | | |
| Receivables | (380,093) | 3,964,190 |
| Inventories | 80,962 | (26,219) |
| Prepayments and other assets | (152,999) | (500,778) |
| Regulatory asset | 274,696 | 304,659 |
| Non-current prepayments and other assets | 201,293 | 222,359 |
| Pension | (12,143) | (88,520) |
| Accounts payable and accrued liabilities | (632,586) | (172,823) |
| Benefits liabilities | 157,535 | (4,493) |
| Rate stabilization | 841,792 | - |
| Regulatory credits | (2,562,623) | 2,245,721 |
| Net cash provided by operating activities | \$ 27,408,074 | \$ 43,162,548 |
| Reconciliation of cash and cash equivalents to the Statements of Net Position | | |
| Current assets | | |
| Unrestricted cash and investments | \$ 73,310,816 | \$ 79,927,637 |
| Restricted cash and investments | 18,576,213 | 21,553,939 |
| Non-current assets | | |
| Unrestricted cash and investments | 89,255,621 | 83,365,451 |
| Restricted cash and investments | 27,734,667 | 27,667,472 |
| Total cash and investments | 208,877,317 | 212,514,499 |
| Less: long-term investments | 116,911,059 | 108,034,524 |
| Total cash and cash equivalents | \$ 91,966,258 | \$ 104,479,975 |

WPPI Energy
Statements of Cash Flows (cont'd)
Years Ended December 31, 2019 and 2018

Noncash investing, capital and related-financing activities

During 2019 and 2018, WPPI Energy recognized \$3,481,905 and \$2,988,297 of equity earnings in ATC.
During 2019 and 2018, WPPI Energy recognized an increase in fair market value of investments of \$1,828,362 and \$28,405.

NOTES TO THE FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(a) Organization and Operations

WPPI Energy (WPPI) is a municipal electric company and political subdivision of the State of Wisconsin, formed in 1980. It is WPPI'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 sells wholesale power to its 41 Wisconsin municipal members and 9 non-Wisconsin municipal members. WPPI also sells wholesale electricity under a long-term contract to a Michigan electric cooperative association. Including the Michigan electric cooperative association, WPPI served 51 customer-owned electric utilities (the "members") as of December 31, 2019 and 2018, respectively.

WPPI sells wholesale electricity to its members under long-term contracts. As of December 31, 2019, 49 members, representing approximately 98% of WPPI'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 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 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(n), Note 1(u) and Note 11, respectively. WPPI also receives operating revenues from sales of capacity and energy to other entities including sales in the MISO and PJM markets.

WPPI offers various member utility services and customer programs, including, but not limited to: advanced metering, customer information system, retail billing and tariff compliance, electric rate studies and financial modeling, customer engagement, program marketing, website development, distribution system support, shared meter technician, lineman construction maintenance, cyber security and network support, joint purchasing of electric materials, government relations and advocacy, communications, incentives and loans, education, and community outreach.

(b) Basis of Accounting

WPPI 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 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 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) **Fair Value Measurements**

WPPI 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.

(e) **Cash and Investments**

Cash and investments of WPPI's funds are governed by (i) Section 66.0825 of the Wisconsin Statutes, which states that notwithstanding the provision of any other law, WPPI 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'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) **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.

(g) **Restricted Cash and Investments**

WPPI's bond resolution requires the segregation of bond proceeds and prescribes the application of WPPI'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's practice to use restricted funds on hand for their designated purpose, when available, before using unrestricted funds for such purpose.

(h) **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:

| | 2019 | 2018 |
|-----------------------|----------------------|----------------------|
| Sales, members | \$ 25,022,145 | \$ 24,716,151 |
| Sales, non-members | 4,604,925 | 4,526,478 |
| Notes, members | 1,049,111 | 996,575 |
| ATC dividends | 2,815,490 | 2,018,041 |
| Unrestricted interest | 674,411 | 570,009 |
| Restricted interest | 52,103 | 49,249 |
| | <u>\$ 34,218,185</u> | <u>\$ 32,876,503</u> |

(i) **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.

(j) **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.

(k) **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 recognizes an expense or asset when such benefit is realized. Prepayments and other assets are for i) a member generation contract entered into in 2016, ii) other prepaid general operating costs, such as insurance and iii) upfront payments for community-based renewable energy purchased from members and their customers.

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

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| Capacity contract | \$ 971,230 | \$ 1,154,371 |
| Other general operating costs | 2,822,759 | 2,629,166 |
| Solar purchases | 97,550 | 136,769 |
| | <u>\$ 3,891,539</u> | <u>\$ 3,920,306</u> |

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

| | 2019 | 2018 |
|-------------|---------------------|---------------------|
| Current | \$ 3,024,051 | \$ 2,851,526 |
| Non-current | 867,488 | 1,068,780 |
| | <u>\$ 3,891,539</u> | <u>\$ 3,920,306</u> |

(l) **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 and ii) unamortized bond issuance costs to be recovered over the repayment period of the related bond issues. 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 borrows for and systematically spreads the costs associated with issuing bonds over the life of the related bond issue for rate-making purposes using a method that approximates the effective-interest method. Regulatory asset balances were as follows at December 31:

| | 2019 | 2018 |
|---------------------------------|---------------------|---------------------|
| CapX 2020 La Crosse project | \$ - | \$ 294,222 |
| Unamortized bond issuance costs | 2,020,510 | 2,233,408 |
| | <u>\$ 2,020,510</u> | <u>\$ 2,527,630</u> |

(m) **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.

(n) **Owned Generation**

WPPI had owned generation of approximately 432 MW at December 31, 2019 and 2018, respectively, from Boswell Unit 4, Elm Road Generating Station (ERGS) Units 1 and 2, South Fond du Lac (SFDL) Units 1 and 4, the Island Street Peaking Plant (ISPP) and other small generation. Generally, WPPI'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 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 has an 8.33% undivided interest (approximately 53 MW in each unit) in 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 owns two 77 MW combustion turbine units near Fond du Lac, Wisconsin. SFDL Units 1 and 4 are two of four combustion turbine units located on a site owned by Wisconsin Power & Light (WPL). WPL owns the other two units on the site and operates and maintains the units owned by WPPI.

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

(o) **Owned Transmission**

WPPI's transmission ownership consists of the CapX 2020 La Crosse project and the Badger-Coulee project. Generally, WPPI'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 11). In addition, WPPI owns an equity interest in ATC Management Inc. and American Transmission Company LLC (collectively ATC) (see Note 3 and Note 11). WPPI takes service for all of its transmission requirements under contracts and tariffs approved by FERC.

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

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Electric plant and equipment | \$ 15,348,275 | \$ 15,175,832 |
| Accumulated depreciation and amortization | <u>(1,752,858)</u> | <u>(1,363,395)</u> |
| Electric plant and equipment, net | <u>\$ 13,595,417</u> | <u>\$ 13,812,437</u> |

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

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Electric plant and equipment | \$ 7,141,008 | \$ 6,811,128 |
| Accumulated depreciation and amortization | <u>(238,264)</u> | <u>(77,477)</u> |
| Electric plant and equipment, net | <u>\$ 6,902,744</u> | <u>\$ 6,733,651</u> |

(p) *Deferred Outflows and Inflows of Resources*

WPPI 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.

(q) *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.

(r) *Derivative Instruments*

WPPI follows GASB 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) to recognize, measure and disclose information regarding its derivative instruments. WPPI may enter into derivative instruments to stabilize power costs to its members, consisting primarily of natural gas and electricity financial contracts. Under GASB 62, a regulatory asset or credit may be recorded as an offset to the net fair value of the hedging derivative instrument until settlement month is reached. WPPI did not hold any potential hedging derivatives at December 31, 2019 and 2018. All other power contracts fall under the normal purchases and sales exception within GASB 53, or are contracts where WPPI expects to take physical delivery of the power.

(s) *Regulatory Credits*

Regulatory credits are for i) amounts subject to refund in future periods for WPPI's share of the CapX 2020 La Crosse project and Badger-Coulee project (see Note 11), ii) refunds received to be returned to members through rates in 2019, iii) self-insurance reserve, iv) long-term maintenance reserve and v) future recoverable costs.

WPPI maintains assets in the Self-Insurance Fund and Renewal and Replacement Fund (see Note 2).

Revenues from members include amounts to pay bond principal and interest. For financial reporting purposes, WPPI recognizes depreciation and amortization pertaining to fixed assets and other assets financed with bond principal. As allowed through the application 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.

Regulatory credit balances were as follows at December 31:

| | 2019 | 2018 |
|--|---------------|---------------|
| CapX 2020 La Crosse & Badger-Coulee projects | \$ 135,959 | \$ 41,348 |
| Refunds to be returned to members | - | 4,040,110 |
| Self-insurance reserve | 5,074,432 | 4,951,913 |
| Long-term maintenance reserve | 10,728,968 | 9,346,092 |
| Future recoverable costs | 17,130,042 | 13,562,175 |
| | \$ 33,069,401 | \$ 31,941,638 |

(t) ***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.

As of December 31, 2019, employees were allowed to carry over up to 40 hours of unused vacation. Accrued vacation is not considered material; therefore, no liability is recorded. Effective January 1, 2020, employees are allowed to carry over up to 80 hours of unused vacation.

(u) ***Purchased Power***

WPPI had major purchase power agreements, as further described below, of approximately 615 MW and 613 MW at December 31, 2019 and 2018, respectively.

WEPCO Market Based Rate Tariff Agreements. WPPI makes two separate purchases from WEPCO under its market rate tariff, FERC electric tariff volume no. 8 dated October 11, 2012. WPPI pays formula-based average embedded cost rates under the first purchase with an initial term that runs through April 30, 2025. WPPI purchased 0 MW for the contract years commencing June 1, 2017, 2018 and 2019, respectively. WPPI has nominated to purchase 0 MW for the contract years commencing June 1, 2020, 2021 and 2022, respectively. WPPI may change its nomination from year to year, subject to contractual restrictions, but may not exceed 305 MW. WPPI is permitted but not obligated to schedule energy up to the nominated demand.

WPPI is obligated to purchase 50 MW under a second purchase through May 31, 2021. WPPI is permitted but not obligated to schedule energy up to the nominated demand.

WPS Long-Term Power Sale and Purchase Agreement. WPPI purchases firm partial requirements service from WPS under a long-term power sale and purchase agreement dated May 1, 2006. WPPI 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 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 sells 20% of its share of unit contingent capacity and energy for the life of WPPI's purchase power agreement with NextEra under a purchase power agreement with Missouri River Energy Services dated July 13, 2011.

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

Nelson Energy Center. WPPI purchases 15.6% (approximately 47 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 Invenegy dated March 12, 2014. Nelson Energy Center is a 600 MW gas-fired combined-cycle plant located near Rock Falls, Illinois. The initial term runs through May 31, 2037.

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

Member Generation under Contract. Member generation under contract to WPPI consists of a number of small generating units, totaling approximately 39 MW and 37 MW of capacity in 2019 and 2018, respectively.

(v) **Operating Revenues and Expenses**

Operating revenues result from exchange transactions associated with the principal activity of WPPI, the sale of electricity and the provision of other services. 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. All other expenses are classified as non-operating expenses.

(w) **Taxes**

WPPI 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.

(x) **Rates to Members**

Rates to members are reviewed and adopted by WPPI's Board of Directors annually. Under WPPI's bond resolution, WPPI'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,

2019 and 2018, WPPI's Board of Directors approved rates that were expected to yield net revenues 1.25 times aggregate debt service, respectively.

WPPI'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, 2019 and 2018, WPPI did not utilize the Rate Stabilization Fund and deferred revenues of \$841,792 and \$0, respectively.

(y) ***Recently Adopted and Issued Accounting Pronouncements***

Effective January 1, 2019, WPPI adopted GASB 83, *Certain Asset Retirement Obligations* (GASB 83), GASB 84, *Fiduciary Activities*, GASB 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* and GASB 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*.

GASB has issued Statement No. 87, *Leases* and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* and Statement No. 91, *Conduit Debt Obligations*. Application of these recently issued accounting pronouncements, when effective, may restate portions of these financial statements.

(z) ***Comparative Data***

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

(2) Cash and Investments

WPPI’s bond resolution requires the segregation of bond proceeds and maintenance of various funds, and prescribes the application of WPPI’s revenues. WPPI 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’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 | To provide for the acquisition and construction of the power supply system. |
| Debt Service* | Trustee | To accumulate principal and interest associated with each bond series. |
| Debt Service Reserve* | Trustee | To establish a reserve for the payment of principal and interest. The level of reserve is defined in the Supplemental Resolution for each bond issuance. |
| Revenue | WPPI | To accumulate revenues and to provide for the payment of expenses and for disposition of revenues to various funds. |
| Renewal & Replacement** | WPPI | 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 | 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 | To accumulate revenues which will be used to reduce rates in a future period. |
| Decommissioning** | WPPI | To accumulate funds to pay for the eventual costs of decommissioning, retirement or disposal of major facilities. |
| General Reserve | WPPI | To be used for any lawful purpose not otherwise prohibited by WPPI's bond resolution. |

*Fund balances are restricted for the purposes above.

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

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| Current | | |
| Unrestricted cash and investments | | |
| Petty cash | \$ 10 | \$ 10 |
| Working capital | 72,692,076 | 79,277,209 |
| Post retirement medical fund | 618,730 | 650,418 |
| Total unrestricted cash and investments | <u>73,310,816</u> | <u>79,927,637</u> |
| Restricted cash and investments | | |
| Construction funds | 1,103,991 | 4,017,968 |
| Debt service funds | 17,472,222 | 17,535,971 |
| Total current restricted cash and investments | <u>18,576,213</u> | <u>21,553,939</u> |
| Total current | 91,887,029 | 101,481,576 |
| Non-current | | |
| Unrestricted cash and investments | | |
| Renewal and replacement fund | 31,339,823 | 26,811,059 |
| Self-insurance fund | 5,036,386 | 4,846,274 |
| Rate stabilization fund | 47,001,638 | 46,007,869 |
| Decommissioning fund | 5,527,774 | 5,350,509 |
| Post retirement medical fund | 350,000 | 349,000 |
| Alliance stock | - | 740 |
| Total non-current unrestricted cash and investments | <u>89,255,621</u> | <u>83,365,451</u> |
| Restricted cash & investments | | |
| Debt service reserve funds | 27,733,645 | 27,666,460 |
| Collateral accounts | 1,022 | 1,012 |
| Total non-current restricted cash and investments | <u>27,734,667</u> | <u>27,667,472</u> |
| Investment in ATC | 138,674,116 | 129,508,519 |
| Total non-current | <u>255,664,404</u> | <u>240,541,442</u> |
| Total cash and investments | <u>\$ 347,551,433</u> | <u>\$ 342,023,018</u> |
| Current & non-current cash and investments | \$ 208,877,317 | \$ 212,514,499 |
| Investment in ATC | 138,674,116 | 129,508,519 |
| Total cash and investments | <u>\$ 347,551,433</u> | <u>\$ 342,023,018</u> |

WPPI'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 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 held in deposit accounts \$379,077 (\$298,246 in book balances) at December 31, 2019. WPPI also held \$502 and \$520 in collateral accounts with MISO and PJM, respectively, at December 31, 2019. With the exception of WPPI's investment in the LGIP, all cash and investments held as of December 31, 2019 and 2018 were held in custody on behalf of and in WPPI'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 held \$15,760,883 and \$15,413,700 in the LGIP which is included within WPPI's cash and investments as of December 31, 2019 and 2018, respectively.

- **Concentration risk** – Investing 5% or more of WPPI'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, 2019 and 2018, respectively.

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

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

| | Standard & Poor's | Moody's | 2019 | 2018 |
|---|----------------------|---------|-----------------------|-----------------------|
| Money market mutual funds | AAAm | Aaa-mf | \$ 70,264,759 | \$ 77,177,397 |
| U.S. treasury/agency securities | AA+ | Aaa | 81,510,667 | 77,471,005 |
| Municipal bonds | AAA | Aa1 | 200,168 | 489,189 |
| Municipal bonds | AA | Aa1 | 417,866 | - |
| Municipal bonds | AA- | Aa2 | 1,078,802 | - |
| Municipal bonds | AA- | Aa3 | - | 1,064,063 |
| Municipal bonds | NR | Aa1 | 329,976 | 326,830 |
| Corporate bonds | AAA | Aaa | 80,142 | 187,217 |
| Corporate bonds | AA+ | Aaa | 297,166 | 640,192 |
| Corporate bonds | AA+ | Aa1 | 339,500 | - |
| Corporate bonds | AA | Aa2 | 194,062 | 1,584,860 |
| Corporate bonds | AA | A1 | 403,996 | 568,373 |
| Corporate bonds | AA- | Aa1 | 507,976 | 901,517 |
| Corporate bonds | AA- | Aa2 | 885,538 | 869,913 |
| Corporate bonds | AA- | Aa3 | 1,867,731 | 1,674,211 |
| Corporate bonds | AA- | A1 | 1,331,188 | 181,454 |
| Corporate bonds | A+ | Aa2 | - | 888,880 |
| Corporate bonds | A+ | Aa3 | 643,297 | 801,116 |
| Corporate bonds | A+ | A1 | 2,249,652 | 2,397,636 |
| Corporate bonds | A+ | A2 | 759,944 | 2,446,974 |
| Corporate bonds | A+ | A3 | 260,814 | - |
| Corporate bonds | A | Aa3 | 525,504 | - |
| Corporate bonds | A | A1 | 1,870,211 | 1,931,763 |
| Corporate bonds | A | A2 | 5,136,443 | 3,000,868 |
| Corporate bonds | A | A3 | 856,783 | 873,407 |
| Corporate bonds | A- | A1 | 982,806 | 803,075 |
| Corporate bonds | A- | A2 | 3,764,102 | 3,433,437 |
| Corporate bonds | A- | A3 | 1,418,963 | 841,091 |
| Corporate bonds | BBB+ | A3 | 3,090,262 | 1,702,294 |
| Corporate bonds | BBB+ | Baa1 | 314,805 | 389,446 |
| Bank deposits, certificates of deposit, commercial paper, Alliance stock & LGIP | n/a | n/a | 27,294,194 | 29,868,291 |
| | | | <u>\$ 208,877,317</u> | <u>\$ 212,514,499</u> |

WPPI 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'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's investments as of December 31, 2019 and 2018. WPPI is exposed to risk of nonperformance if the counterparties default or if the forward delivery agreements are terminated.

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

| | Interest Rate | Termination Date | 2019 | 2018 |
|-----------------------|---------------|------------------|---------------------|---------------------|
| Bank of America, N.A. | 4.875% | 7/1/2037 | \$ 4,973,763 | \$ 4,973,763 |
| Bank of America, N.A. | 4.980% | 7/1/2037 | 3,119,000 | 3,119,000 |
| | | | <u>\$ 8,092,763</u> | <u>\$ 8,092,763</u> |

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

As of December 31, 2019, WPPI's cash and investments were classified by maturity as follows:

| | Total | Maturity in Years | | |
|---|----------------------|----------------------|----------------------|---------------------|
| | | Less than 1 | 1-5 | Over 5 |
| Money market mutual funds | \$ 70,264,759 | \$ 70,264,759 | \$ - | \$ - |
| U.S. treasury/agency securities | 81,510,667 | 10,890,812 | 69,031,801 | 1,588,054 |
| Municipal bonds | 2,026,812 | 200,168 | 1,826,644 | - |
| Corporate bonds | 27,780,885 | 3,706,121 | 24,074,764 | - |
| Bank deposits, certificates of deposit, commercial paper, Alliance stock & LGIP | 27,294,194 | 24,178,926 | 3,115,268 | - |
| | <u>\$208,877,317</u> | <u>\$109,240,786</u> | <u>\$ 98,048,477</u> | <u>\$ 1,588,054</u> |

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

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

- **Fair value measurements** – WPPI 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, 2019, WPPI’s recurring fair value measurements by level were as follows:

| | Total | Fair Value Measurements Using | | |
|------------------------------------|----------------------|-------------------------------|----------------------|-------------|
| | | Level 1 | Level 2 | Level 3 |
| Investments at fair value | | | | |
| Debt securities | | | | |
| Money market mutual funds | \$ 70,264,759 | \$ - | \$ 70,264,759 | \$ - |
| U.S. treasury securities | 62,050,368 | 62,050,368 | - | - |
| U.S. agency securities | 19,460,299 | - | 19,460,299 | - |
| Municipal bonds | 2,026,812 | - | 2,026,812 | - |
| Corporate bonds | 27,780,885 | - | 27,780,885 | - |
| Negotiable certificates of deposit | 8,288,734 | - | 8,288,734 | - |
| Commercial paper | 1,976,570 | - | 1,976,570 | - |
| Total investments at fair value | <u>\$191,848,427</u> | <u>\$ 62,050,368</u> | <u>\$129,798,059</u> | <u>\$ -</u> |

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

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

(3) Investment in ATC

WPPI 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's equity interest in ATC was approximately 6.7% at December 31, 2019 and 2018. WPPI's investment in ATC qualifies for the equity method of accounting.

Under the terms of the ownership agreement with ATC, WPPI has the right, but not the obligation, to purchase additional member units in ATC through participation in voluntary additional capital calls. At December 31, 2019, WPPI had outstanding commitments to fund ATC of \$334,335. The amount was paid in January, 2020.

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

| | 2019 | 2018 |
|---------------------------------------|-------------------|-------------------|
| Operating revenues | \$ 744.4 | \$ 690.5 |
| Operating expenses | (373.5) | (358.7) |
| Other income, net | - | 2.4 |
| Interest expense, net | (110.5) | (110.7) |
| Earnings before members' income taxes | <u>\$ 260.4</u> | <u>\$ 223.5</u> |
| | | |
| Current assets | \$ 84.6 | \$ 87.2 |
| Net property, plant and equipment | 5,232.2 | 4,921.2 |
| Regulatory and other assets | 12.0 | 7.6 |
| Total assets | <u>\$ 5,328.8</u> | <u>\$ 5,016.0</u> |
| | | |
| Current liabilities | \$ 502.6 | \$ 640.0 |
| Long-term debt | 2,312.8 | 2,014.0 |
| Regulatory and other liabilities | 298.8 | 295.3 |
| Members' equity | 2,214.6 | 2,066.7 |
| Total liabilities and capitalization | <u>\$ 5,328.8</u> | <u>\$ 5,016.0</u> |

(4) Capital Assets

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

| 2019 | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
|---|-------------------|-----------------|----------------|--------------|----------------|
| Depreciable assets | | | | | |
| Electric plant and equipment | \$ 579,369,337 | \$ 475,909 | \$ (4,922,946) | \$ 4,235,741 | \$ 579,158,041 |
| Accumulated depreciation and amortization | (196,758,266) | (16,671,481) | 2,608,789 | - | (210,820,958) |
| Electric plant and equipment, net | 382,611,071 | (16,195,572) | (2,314,157) | 4,235,741 | 368,337,083 |
| Nondepreciable assets | | | | | |
| Land | 1,317,182 | - | - | 29,690 | 1,346,871 |
| Construction work in progress | 3,033,425 | 4,993,388 | - | (4,264,705) | 3,762,108 |
| Total capital assets | \$ 386,961,678 | \$ (11,202,184) | \$ (2,314,157) | \$ 726 | \$ 373,446,062 |

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

At December 31, 2019 and 2018, the balance in construction work in progress consisted primarily of various capital projects at Boswell Unit 4 and ERGS Units 1 and 2. During 2018, \$6,198,128 and \$613,000 was transferred from construction work in progress to electric plant and equipment and land, respectively, as a result of the completion of the Badger-Coulee project.

(5) Asset Retirement Obligations

Effective January, 1, 2019, WPPI adopted GASB 83 (see Note 1(y)). Prior to GASB 83, WPPI followed Financial Accounting Standards Board Accounting Standards Codification 410, *Asset Retirement and Environmental Obligations* (FASB ASC 410). WPPI recognized a cumulative effect of change in accounting principle which resulted in a \$1,269,879 decrease to net position as of January 1, 2019. WPPI did not restate prior year amounts, based on materiality, as determined by Management. For the years ended December 31, 2019 and 2018, asset retirement obligation (ARO) information presented below is reported under GASB 83 and FASB ASC 410, respectively.

2019

For the year ended December 31, 2019, WPPI recorded a deferred outflow of resources at the amount of the corresponding ARO liability which was measured based on the best estimate of the current value of outlays expected to be incurred. WPPI used information from Minnesota Power, WEPCO and WPL, as applicable, to estimate certain outlays expected to be incurred. See Note 1(n) for ownership information and operating agent responsibility. WPPI maintains assets in the Decommissioning Fund (see Note 2).

WPPI's AROs were comprised of the following at December 31:

| 2019 | Description | Date of Measurement (Year) | Estimated Remaining Useful Life (Years) | ARO |
|----------------|---|----------------------------|---|---------------------|
| Boswell Unit 4 | Plant, common, coal pile, ash ponds (1) | 2015 | 17 | \$ 6,711,934 |
| ERGS Unit 1 | Plant (2) | 2010 | 37 | 596,156 |
| ERGS Unit 2 | Plant (2) | 2011 | 37 | 118,521 |
| SFDL Unit 1 | Diesel storage tanks (3) | 2005 | 15 | 78,562 |
| SFDL Unit 4 | Diesel storage tanks (3) | 2005 | 15 | 78,562 |
| ISPP | Diesel storage tanks (3) | 2019 | 15 | 133,895 |
| Total | | | | <u>\$ 7,717,630</u> |

(1) Source of obligations; contracts (plant, common), federal laws (coal pile, ash ponds)

(2) Source of obligations; contracts

(3) Source of obligations; state laws

2018

For the year ended December 31, 2018, WPPI's AROs consisted of the closure of ash ponds at the Boswell site and the removal and dismantlement of ERGS Units 1 and 2. WPPI used information from Minnesota Power and WEPCO, as applicable, to estimate the cash flows to determine the obligations.

WPPI's AROs were comprised of the following at December 31:

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

(6) Long-Term Debt

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

Proceeds of the 2018 A bonds along with certain other funds totaling \$48,324,809 were irrevocably escrowed to make the remaining principal and interest payments on the 2008 A Refunded Bonds. The 2008 A Refunded Bonds plus accrued interest were redeemed on July 1, 2018. The current refunding portion of the 2008 A Refunded Bonds reduced total debt service payments between the old and the new debt by \$7,756,553, resulting in an economic gain of \$6,536,809. A loss on reacquired debt in the amount of \$3,196,686 was recognized as a deferred outflow of resources and will be amortized over the repayment period of the 2018 A bonds.

On July 1, 2018, WPPI called the remaining outstanding Power Supply System Revenue Bonds, Series 2008 A. Bonds maturing on July 1, 2019 and July 1, 2020 with a total par value of \$15,195,000 were paid off with available funds on hand. Bonds maturing on July 1, 2019 through July 1, 2037 for the Power Supply System Revenue Bonds, Series 2008 A with a total par amount of \$82,170,000 (2008 A Advance Refunded Bonds) were refunded as an advance refunding with the issuance of the Power Supply System Revenue Bonds, Series 2016 A (2016 A bonds). Proceeds of the 2016 A bonds along with certain other funds totaling \$91,227,167 were irrevocably escrowed to make the remaining principal and interest payments on the 2008 A Advance Refunded Bonds. On July 1, 2018, the 2008 A Advance Refunded Bonds were redeemed and a final interest payment was made, resulting in no remaining funds in the escrow account established with the issuance of the 2016 A bonds.

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

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| 2013 Series A 4.00% to 5.00% | | |
| Due July 1, 2018 - 2037 | \$ 150,615,000 | \$ 159,145,000 |
| 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 | 65,935,000 | 75,555,000 |
| 2018 Series A 5.00% | | |
| Due July 1, 2021 - 2037 | <u>41,340,000</u> | <u>41,340,000</u> |
| Total revenue bonds outstanding | 324,300,000 | 342,450,000 |
| Current maturities | (18,930,000) | (18,150,000) |
| Unamortized premium | <u>37,921,533</u> | <u>42,131,567</u> |
| Revenue bonds, net of unamortized premium | <u>\$ 343,291,533</u> | <u>\$ 366,431,567</u> |

The Power Supply System Revenue Bonds contain provisions that apply in the event of default and are generally secured by all funds and revenues of WPPI 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's outstanding bonds are as follows:

| Year | Principal | Interest | Total |
|-----------|-----------------------|-----------------------|-----------------------|
| 2020 | \$ 18,930,000 | \$ 16,014,444 | \$ 34,944,444 |
| 2021 | 14,855,000 | 15,067,944 | 29,922,944 |
| 2022 | 16,940,000 | 14,325,194 | 31,265,194 |
| 2023 | 16,325,000 | 13,478,194 | 29,803,194 |
| 2024 | 16,000,000 | 12,661,944 | 28,661,944 |
| 2025-2029 | 86,515,000 | 51,052,569 | 137,567,569 |
| 2030-2034 | 97,865,000 | 28,493,969 | 126,358,969 |
| 2035-2037 | 56,870,000 | 5,171,831 | 62,041,831 |
| Total | <u>\$ 324,300,000</u> | <u>\$ 156,266,089</u> | <u>\$ 480,566,089</u> |

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

| 2019 | Beginning Balance | Additions | Reductions | Ending Balance |
|---|-----------------------|---------------------|------------------------|-----------------------|
| Long-term debt | | | | |
| Total bonds outstanding | \$ 342,450,000 | \$ 18,930,000 | \$ (37,080,000) | \$ 324,300,000 |
| Less: current maturities | 18,150,000 | 18,930,000 | (18,150,000) | 18,930,000 |
| Add: unamortized premium | 42,131,567 | - | (4,210,034) | 37,921,533 |
| Revenue bonds, net of unamortized premium | <u>\$ 366,431,567</u> | <u>\$ -</u> | <u>\$ (23,140,034)</u> | <u>\$ 343,291,533</u> |
| Non-current liabilities | | | | |
| Asset retirement obligations | \$ 5,669,593 | \$ 2,048,037 | \$ - | \$ 7,717,630 |
| Benefits liabilities | 2,444,366 | 2,432,723 | - | 4,877,089 |
| Total non-current liabilities | <u>\$ 8,113,959</u> | <u>\$ 4,480,760</u> | <u>\$ -</u> | <u>\$ 12,594,719</u> |

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

(7) Available Financing

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

As of December 31, 2019, JPMorgan has issued a \$3,000,000 letter of credit on behalf of WPPI for the benefit of MISO as collateral for WPPI's participation in MISO's financial transmission rights market.

At December 31, 2019 and 2018, there was no outstanding balance on the revolving line of credit.

(8) Significant Members

On a combined basis, two significant members of WPPI accounted for \$61,433,978 and \$65,328,401, or approximately 14.3% and 14.5%, of total operating revenues for the years ended December 31, 2019 and 2018, respectively, and have long-term contracts through December 31, 2055 (see Note 1(a)).

(9) Employee Benefits

(a) Retention Plan

WPPI 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, 2019 and 2018 were \$292,386 and \$443,556, respectively.

(b) Pension

All eligible employees participate 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 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 |
|------|-------------------------|-----------------------------|
| 2008 | 6.6% | 0.0% |
| 2009 | -2.1% | -42.0% |
| 2010 | -1.3% | 22.0% |
| 2011 | -1.2% | 11.0% |
| 2012 | -7.0% | -7.0% |
| 2013 | -9.6% | 9.0% |
| 2014 | 4.7% | 25.0% |
| 2015 | 2.9% | 2.0% |
| 2016 | 0.5% | -5.0% |
| 2017 | 2.0% | 4.0% |
| 2018 | 2.4% | 17.0% |

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. For the reporting period ending December 31, 2018 and 2017, the WRS recognized \$664,364 and \$659,021, respectively, in contributions from WPPI. Contribution rates for the employee and employer were each 6.7% and 6.8% as of December 31, 2018 and 2017, respectively.

At December 31, 2019, WPPI recognized a liability (asset) of \$2,358,846 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018.

At December 31, 2018, WPPI recognized a liability (asset) of \$(2,003,465) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017.

Changes in the actuarial assumptions used to develop the total pension liability occurred between the respective actuarial valuation dates and the measurement dates, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality and separation rates, as presented below. There were no material changes in benefit terms. WPPI's proportion of the net pension liability (asset) was based on its share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2018, WPPI's proportion was 0.06630282%, which was a decrease of 0.00117397% from its proportion of 0.06747679% measured as of December 31, 2017. For the years ended December 31, 2019 and 2018, WPPI recognized pension expense of \$1,336,843 and \$612,929, respectively.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| 2019 | | |
| Differences between expected and actual experience | \$ 1,837,184 | \$ 3,247,480 |
| Net difference between projected and actual earnings on pension plan investments | 3,444,933 | - |
| Changes in assumptions | 397,615 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 770,389 |
| Employer contributions subsequent to the measurement date | 700,501 | - |
| Total | <u>\$ 6,380,233</u> | <u>\$ 4,017,869</u> |

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

During 2019 and 2018, WPPI provided additional voluntary employer contributions of \$280,460 and \$69,131, respectively, to the WRS on behalf of certain employees, which does not impact WPPI's proportionate share of the net pension liability (asset) nor its pension expense.

WPPI reported \$700,501 as deferred outflows of resources related to pension resulting from its contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability (asset) in the year ending December 31, 2020. Other net balances reported as deferred outflows (inflows) of resources related to pension will be recognized in pension expense as follows for the years ending December 31:

| | | |
|------------|----|------------------|
| 2020 | \$ | 623,742 |
| 2021 | | (34,046) |
| 2022 | | 130,288 |
| 2023 | | 941,879 |
| 2024 | | - |
| Thereafter | | - |
| Total | \$ | <u>1,661,863</u> |

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

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|-----------------------------------|-----------------------------------|
| Actuarial valuation date | 12/31/2017* | 12/31/2016** |
| Measurement date | 12/31/2018 | 12/31/2017 |
| Actuarial cost method | Entry Age | Entry Age |
| Asset valuation method | Fair Value | Fair Market Value |
| Long-term expected rate of return | 7.0% | 7.2% |
| Discount rate | 7.0% | 7.2% |
| Salary increases - inflation | 3.0% | 3.2% |
| Salary increases - seniority/merit | 0.1% - 5.6% | 0.2% - 5.6% |
| Mortality | Wisconsin 2018 Mortality Table | Wisconsin 2012 Mortality Table |
| Post-retirement adjustments*** | 1.9% | 2.1% |

*Actuarial assumptions are based upon an experience study conducted in 2018 using experience from 2015 through 2017.

** Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012 through 2014.

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

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

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

| | 2019 | | | 2018 | | |
|----------------------------------|--------------------|---|--|--------------------|---|--|
| | Asset Allocation % | Long-Term Expected Nominal Rate of Return % | Long-Term Expected Real Rate of Return % | Asset Allocation % | Long-Term Expected Nominal Rate of Return % | Long-Term Expected Real Rate of Return % |
| <u>Core Fund Asset Class</u> | | | | | | |
| Global equities | 49.0% | 8.1% | 5.5% | 50.0% | 8.2% | 5.3% |
| Fixed income | 24.5% | 4.0% | 1.5% | 24.5% | 4.2% | 1.4% |
| Inflation sensitive assets | 15.5% | 3.8% | 1.3% | 15.5% | 3.8% | 1.0% |
| Real estate | 9.0% | 6.5% | 3.9% | 8.0% | 6.5% | 3.6% |
| Private equity/debt | 8.0% | 9.4% | 6.7% | 8.0% | 9.4% | 6.5% |
| Multi-asset | 4.0% | 6.7% | 4.1% | 4.0% | 6.5% | 3.6% |
| Total core fund | 110.0% | 7.3% | 4.7% | 110.0% | 7.3% | 4.4% |
| <u>Variable Fund Asset Class</u> | | | | | | |
| U.S. equities | 70.0% | 7.6% | 5.0% | 70.0% | 7.5% | 4.6% |
| International equities | 30.0% | 8.5% | 5.9% | 30.0% | 7.8% | 4.9% |
| Total variable fund | 100.0% | 8.0% | 5.4% | 100.0% | 7.9% | 5.0% |

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

2.5% (2019) and 2.75% (2018)

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

A single discount rate of 7.00% was used to measure the total pension liability compared to a single discount rate of 7.20% for the prior year. This single discount rate was based on the expected rate of return on pension plan investments of 7.00% and a long term bond rate of 3.71% compared to 7.20% and 3.31%, respectively, from the prior year. Because of the unique structure of the WRS, the expected rates of return imply that the dividend will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset) for the years presented.

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

| | 2019 | 2018 |
|--|--------------|--------------|
| One percentage point lower (6.00%, 6.20%) | \$ 9,374,303 | \$ 5,183,650 |
| Current discount rate (7.00%, 7.20%) | 2,358,846 | (2,003,465) |
| One percentage point higher (8.00%, 8.20%) | (2,857,689) | (7,465,896) |

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

WPPI had a payable of \$100,805 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2019. The amount was paid in January, 2020.

(c) Other Postemployment Benefits (OPEB)

The WPPI Post-Employment Benefit Plan (Plan) is a single-employer defined benefit plan that provides limited postemployment health benefits for eligible employees. An employee who reaches age 60 and has ten years of service with WPPI qualifies for retiree benefits. 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 will reimburse the employee for a portion of the cost of health insurance. Full-time employees qualify for 50% reimbursement and part-time employees will receive a pro rata portion. Upon eligibility for Medicare, full-time employees may be reimbursed up to 100% and part-time employees a pro rata portion of the cost of a Medicare supplemental policy, subject to certain caps. Separate arrangements provide health insurance premium payments for life for one retired participant and one retired participant and spouse. WPPI administers the Plan and does not charge for services. WPPI's Executive Committee approves amendments to the Plan. At December 31, 2019, there were 110 eligible active participants, 1 ineligible active participant and 4 retired participants. At December 31, 2018, there were 105 eligible active participants and 4 retired participants.

WPPI's Board of Directors did not designate earnings to be held for the purpose of funding future OPEB obligations in 2019 or 2018. Since inception, \$1,365,000 has been designated for the purpose of funding future OPEB obligations. For these designations to be recognized toward funding future OPEB obligations under GASB 75, they would need to be administered through a qualifying trust. WPPI holds the dollars in a segregated account, but the dollars remain under WPPI's control. There are no standalone financial statements for the Plan.

Effective January 1, 2018, WPPI adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (GASB 75) and recognized a cumulative effect of change in accounting principle which resulted in a \$252,646 decrease to the total OPEB liability and a \$252,646 increase to net position as of January 1, 2018. Additional schedules are presented in the Required Supplemental Information section.

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

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ 1,764,760 | \$ 1,545,914 |
| Service cost | 116,626 | 106,135 |
| Interest on total OPEB liability | 61,328 | 61,251 |
| Changes of assumptions or other inputs | (103,327) | 51,460 |
| Benefit payments | <u>(64,571)</u> | <u>-</u> |
| Balance, end of year | <u>\$ 1,774,816</u> | <u>\$ 1,764,760</u> |

The total OPEB liability was determined by an actuarial valuation as of the measurement date, calculated based on the discount rate and actuarial assumptions, and where consistent with the terms of the Plan, utilized assumptions provided in the WRS actuarial valuation reports at December 31, 2017. Key actuarial assumptions were as follows at December 31:

| | <u>2019</u> | <u>2018</u> |
|------------------------------|-----------------------------------|-----------------------------------|
| Actuarial valuation date | 12/31/2018 | 12/31/2018 |
| Measurement date | 12/31/2018 | 12/31/2017 |
| Actuarial cost method | Entry Age | Entry Age |
| Salary increases - inflation | 3.2% | 3.2% |
| Mortality | Wisconsin 2012 Mortality Table | Wisconsin 2012 Mortality Table |

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

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

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

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

| | <u>2019</u> | <u>2018</u> |
|--|--------------|--------------|
| One percentage point lower (3.10%, 2.44%) | \$ 1,934,035 | \$ 1,926,737 |
| Current discount rate (4.10%, 3.44%) | 1,774,816 | 1,764,760 |
| One percentage point higher (5.10%, 4.44%) | 1,630,586 | 1,618,337 |

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

| | 2019 | 2018 |
|------------------------------------|--------------|--------------|
| One percentage point lower | \$ 1,654,129 | \$ 1,646,127 |
| Current annual medical trend rates | 1,774,816 | 1,764,760 |
| One percentage point higher | 1,917,622 | 1,904,775 |

For the years ended December 31, 2019 and 2018, WPPI recognized OPEB expense of \$173,795 and \$171,513, respectively. Components of OPEB expense and deferred outflows and inflows of resources related to OPEB were as follows at December 31:

| 2019 | Original Amount | Date Established | Recognized in OPEB Expense | Balance of Deferred Outflows of Resources | Balance of Deferred Inflows of Resources |
|---|-------------------|------------------|----------------------------|---|--|
| Service cost (1) | \$ 116,626 | 12/31/2019 | \$ 116,626 | \$ - | \$ - |
| Interest on total OPEB liability (1) | 61,328 | 12/31/2019 | 61,328 | - | - |
| Changes of assumptions or other inputs (2) | (103,327) | 12/31/2019 | (8,286) | - | 95,041 |
| Changes of assumptions or other inputs (3) | 51,460 | 12/31/2018 | 4,127 | 43,206 | - |
| Contributions made subsequent to measurement date | 49,875 | 12/31/2019 | - | 49,875 | - |
| Total | \$ 175,962 | | \$ 173,795 | \$ 93,081 | \$ 95,041 |

| 2018 | Original Amount | Date Established | Recognized in OPEB Expense | Balance of Deferred Outflows of Resources | Balance of Deferred Inflows of Resources |
|---|-------------------|------------------|----------------------------|---|--|
| Service cost (1) | \$ 106,135 | 12/31/2018 | \$ 106,135 | \$ - | \$ - |
| Interest on total OPEB liability (1) | 61,251 | 12/31/2018 | 61,251 | - | - |
| Changes of assumptions or other inputs (3) | 51,460 | 12/31/2018 | 4,127 | 47,333 | - |
| Contributions made subsequent to measurement date | 64,571 | 12/31/2018 | - | 64,571 | - |
| Total | \$ 283,417 | | \$ 171,513 | \$ 111,904 | \$ - |

(1) WPPI recognized in OPEB expense, the original amount associated with these components in the year presented (the period of the change).

- (2) WPPI recognized in OPEB expense over a closed period equal to the average of the expected remaining service lives of active and inactive participants that are provided benefits through the Plan, beginning with the year ended December 31, 2019.
- (3) WPPI recognized in OPEB expense over a closed period equal to the average of the expected remaining service lives of active and inactive participants that are provided benefits through the Plan, beginning with the year ended December 31, 2018.

WPPI reported \$49,875 as deferred outflows of resources related to OPEB resulting from its contributions subsequent to the measurement date, which will be recognized as a reduction of the total OPEB liability in the year ending December 31, 2020. Other net balances reported as deferred outflows (inflows) of resources related to OPEB will be recognized in OPEB expense as follows for the years ending December 31:

| | | |
|------------|----|------------------------|
| 2020 | \$ | (4,159) |
| 2021 | | (4,159) |
| 2022 | | (4,159) |
| 2023 | | (4,159) |
| 2024 | | (4,159) |
| Thereafter | | <u>(31,040)</u> |
| Total | \$ | <u><u>(51,835)</u></u> |

(10) Risk Management

WPPI 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 is responsible for deductibles under the policies. Other risks are covered through the purchase of commercial insurance, with minimal deductibles. For 2019 and 2018, there were no settlements exceeding coverage.

(11) Commitments and Contingencies

WPPI 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 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. In addition to the major purchase power agreements described in Note 1(u), WPPI has purchase power agreements from other wind, run of river hydro, landfill gas and solar resources with name plate capacity totaling approximately 176 MW at December 31, 2019 and 2018, respectively.

In January 2017, WPPI 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(u)). It is expected that the Point Beach Solar Energy Center will have an installed capacity of 100 MW and begin commercial operation in 2021.

WPPI participates in the MISO market. MISO routinely true-up revenues and expenses for up to 105 days. Under special circumstances, MISO has true-up revenues and expenses for longer durations. WPPI 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.

A group of organizations filed two complaints with FERC seeking, among other things, to lower the MISO-wide base rate of return on equity (ROE) of 12.38%. The first complaint was filed on November 12, 2013 and covered the period through February 11, 2015. The second complaint was filed on February 12, 2015 and covered the period through May 11, 2016.

On September 28, 2016, FERC issued Opinion No. 551, an Order on Initial Decision, that established the MISO-wide base ROE at 10.32%. Opinion No. 551 further ordered MISO and its transmission owners, including ATC, to refund, with interest, the difference between the revenues collected and the lower amount authorized from November 12, 2013 through February 11, 2015, the period of the first complaint. Following subsequent extensions, refunds were completed by June 16, 2017. During 2017, WPPI received refunds totaling \$5.0 million, including interest, for certain transmission service charges it previously paid during the period related to the first complaint.

On November 21, 2019, FERC issued Opinion No. 569, an Order on Briefs, Rehearing and Initial Decision, that adopted a new methodology for determining whether a jurisdictional public utility's ROE is just and reasonable under section 206 of the Federal Power Act. Applying the new methodology in the two previously filed complaints, FERC (i) determined the MISO-wide base ROE of 12.38% to be unjust and unreasonable, (ii) established a new MISO-wide base ROE of 9.88% and (iii) ordered MISO and its transmission owners, including ATC, to refund, with interest, the difference between the revenues collected and the lower authorized amount for the period of the first complaint and for the period from September 28, 2016 through November 21, 2019. This order also dismissed the second complaint for the period of February 12, 2015 through May 11, 2016.

On December 18, 2019, FERC granted the request by MISO and its transmission owners, including ATC, for an extension of time until December 23, 2020 to make the refunds related to Opinion No. 569. Subsequent requests for rehearing of Opinion No. 569 have been submitted to FERC. While WPPI cannot predict the outcome of these FERC proceedings, MISO and its transmission owners, including ATC, implemented the new MISO-wide base ROE of 9.88% in January, 2020. As a result, the rate of return WPPI will receive for its share of the CapX 2020 La Crosse project and the Badger-Coulee project, and the rate of return of WPPI's investment in ATC, will decrease. WPPI's overall transmission costs to serve its members will also reflect the lower base ROE. As of December 31, 2019 and 2018, WPPI recorded a regulatory credit of \$135,959 and \$41,348, respectively, for its share revenue collected from the CapX 2020 La Crosse project and Badger-Coulee project, subject to refund (see Note 1(s)).

On July 8, 2019, the U.S. Environmental Protection Agency published the final Affordable Clean Energy rule, which repealed the Clean Power Plan, effective September 6, 2019. The final rule establishes emissions guidelines for states to use when developing plans to limit greenhouse gas emissions at existing coal-fired power plants under the Clean Air Act, and is subject to legal challenges. WPPI is unable to predict the outcome of any legal challenges or the potential impact on the final form and timing of these regulations.

WPPI'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's system, and the systems of utilities from which WPPI purchases power, and are subject to change. Any such changes may arise from legislative, regulatory or judicial actions.

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REQUIRED SUPPLEMENTAL INFORMATION

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

| Fiscal Year End | Proportion of the Net Pension Liability (Asset) | Proportionate Share of the Net Pension Liability (Asset) | Covered Payroll | Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset) |
|-----------------------|---|---|--------------------|---|---|
| 12/31/19 | 0.06630282% | \$ 2,358,846 | \$ 9,915,877 | 23.79% | 96.45% |
| 12/31/18 | 0.06747679% | (2,003,465) | 9,691,520 | -20.67% | 102.93% |

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

WPPI Energy
Schedule of Employer Contributions
Wisconsin Retirement System

| Fiscal Year End | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-----------------------|--|---|--|--------------------|---|
| 12/31/19 | \$ 664,364 | \$ 664,364 | \$ - | \$ 10,653,423 | 6.24% |
| 12/31/18 | 659,021 | 659,021 | - | 9,915,877 | 6.65% |

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

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

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Balance, beginning of year | \$ 1,764,760 | \$ 1,545,914 |
| Service cost | 116,626 | 106,135 |
| Interest on total OPEB liability | 61,328 | 61,251 |
| Changes of assumptions or other inputs | (103,327) | 51,460 |
| Benefit payments | <u>(64,571)</u> | <u>-</u> |
| Balance, end of year | <u>\$ 1,774,816</u> | <u>\$ 1,764,760</u> |
| Covered payroll | \$ 10,982,675 | \$ 10,161,638 |
| Total OPEB liability as percentage of covered payroll | 16.16% | 17.37% |

Note: Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

Schedule uses the optional format of combining the required schedules.

Assets are not accumulated in a qualifying trust to pay related benefits.