Wabash Valley Power Association, Inc.

Consolidated Financial Statements as of and for the Years Ended December 31, 2019 and 2018 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of Wabash Valley Power Association, Inc. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and patronage capital and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wabash Valley Power Association, Inc. and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 20, 2020

WABASH VALLEY POWER ASSOCIATION, INC.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2018
(In thousands)

	2019	2018
ASSETS		
PLANT:		
In service—at cost	$1,159,483	$1,099,612
Construction work in progress	44,942	44,735
Plant held for future use	243	225
Less accumulated depreciation	(384,921)	(355,464)
	819,747	789,108
CURRENT ASSETS:		
Cash and cash equivalents	80,538	84,600
Restricted cash	10,215	14,554
Short-term investments	-	20,000
Accounts receivable	96,895	78,288
Fuel stock and material inventory—at average cost	18,995	16,573
Other	5,886	4,109
	212,529	218,124
OTHER ASSETS:		
Investments	23,802	15,129
Deferred charges	163,393	162,975
	187,195	178,104
TOTAL ASSETS	$1,219,471	$1,185,336
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Patronage capital equity	$ 240,303	$ 223,803
Accumulated other comprehensive (loss) income	(987)	(1,020)
Solar financing obligations	7,062	1,437
Long-term debt	720,466	726,686
	966,844	950,906
CURRENT LIABILITIES:		
Current portion of long-term debt	45,941	43,242
Accounts payable	55,145	50,060
Accrued interest	6,588	6,541
Accrued taxes other than income	4,561	4,311
Over collected power costs	20,453	16,001
Other	18,787	10,519
	151,475	130,674
DEFERRED CREDITS	101,152	103,756
TOTAL CAPITALIZATION AND LIABILITIES	$1,219,471	$1,185,336

See notes to consolidated financial statements.

WABASH VALLEY POWER ASSOCIATION, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In thousands)

	2019	**2018**
OPERATING REVENUES:		
Member	$577,865	$575,857
Other	67,657	78,995
	645,522	654,852
OPERATING EXPENSES:		
Fuel	40,918	47,956
Operation and maintenance	64,958	57,490
Purchased power	406,749	420,449
Administrative and general	19,412	18,510
Other taxes	714	656
Depreciation and amortization	54,871	51,207
	587,622	596,268
OPERATING MARGIN	57,900	58,584
OTHER EXPENSES (INCOME):		
Interest expense—net of amounts capitalized	39,546	37,993
Interest income	(5,427)	(5,659)
Miscellaneous income and deductions—net	(1,219)	2,250
	32,900	34,584
NET MARGIN	25,000	24,000
PATRONAGE CAPITAL—Beginning of year	223,803	208,303
PATRONAGE CAPITAL RETIREMENT	(8,500)	(8,500)
PATRONAGE CAPITAL—End of year	$240,303	$223,803

See notes to consolidated financial statements.

WABASH VALLEY POWER ASSOCIATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In thousands)

	2019	2018
OPERATING ACTIVITIES:		
Net margin	$ 25,000	$ 24,000
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	54,871	51,207
Loss on disposition of assets	684	2,561
Changes in certain assets and liabilities:		
Accounts receivable	(18,607)	44,846
Fuel stock and material inventory	(2,422)	189
Over collected/under recovered power costs	4,452	15,203
Accounts payable	(5,138)	(11,261)
Other assets	(9)	(843)
Other liabilities	(1,929)	12,895
Net cash provided by operating activities	56,902	138,797
INVESTING ACTIVITIES:		
Capital expenditures	(73,719)	(77,804)
Proceeds from sale of property, plant and equipment	1,640	-
Proceeds from investments	20,268	229
Purchase of investments	(8,941)	(21,324)
Net cash used in investing activities	(60,752)	(98,899)
FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	40,000	85,000
Change in line of credit borrowings	-	(30,000)
Patronage capital retirements	(8,500)	(8,500)
Proceeds from sale of solar assets	7,983	-
Payment on solar financing obligation	(115)	-
Payment on long-term debt	(43,919)	(39,242)
Net cash (used in)/provided by financing activities	(4,551)	7,258
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(8,401)	47,156
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period	99,154	51,998
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of period	$ 90,753	$ 99,154
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest	$ 39,818	$ 36,914
Non-cash investing and operating activities—additions to electric plant included in accounts payable	$ 10,160	$ 1,895

See notes to consolidated financial statements.

1. ORGANIZATION

Organization—Wabash Valley Power Association, Inc. ("Wabash Valley Power" or the "Company") is a nonprofit electric generation and transmission cooperative headquartered in Indianapolis, Indiana. The Company provides wholesale power to 23 rural electric membership corporations (REMCs) located in northern Indiana and parts of Illinois and Missouri.

Each member REMC has signed two All Requirements Contracts (ARCs) that obligate them to purchase all power and energy needed to serve their customers from Wabash Valley Power. The term of the first contract expires in April 2028, and the second contract term is from April 2028 through December 2050.

Wabash Valley Power's membership also includes two non-cooperative organizations, JAron & Company (JAron) and Wabash Valley Energy Marketing, Inc. (Energy Marketing), a wholly owned subsidiary of Wabash Valley Power. JAron currently has contracted purchases from Wabash Valley Power through December 2020.

Basis of Consolidation—Due to Wabash Valley Power's ownership and control over the operations of Energy Marketing, the results of Energy Marketing have been included in the consolidated financial statements and all significant intercompany transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regulatory Accounting—Wabash Valley Power is governed by the Federal Energy Regulatory Commission (FERC) under the Federal Power Act and maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by FERC, which conform to accounting principles generally accepted in the United States of America (GAAP) in all material respects. All required adjustments to FERC accounting have been made to make the consolidated financial statements consistent with GAAP.

The rates charged by the Company for power supplied to its members are based on the revenue required by Wabash Valley Power to cover the cost of supplying such power, plus an appropriate margin. As a rate-regulated entity, Wabash Valley Power issues consolidated financial statements that reflect actions of regulators that result in the recognition of revenues and expenses in different periods than enterprises that are not rate-regulated, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980—Regulated Operations (ASC 980). As such, regulatory assets are recorded to reflect future revenues associated with costs that are expected to be recovered from customers in future periods. Regulatory liabilities are recorded to reflect future reductions in revenues associated with amounts that are expected to be credited to customers in future periods. For further information, see Note 10—Deferred Charges and Credits.

Revenues and expenses that are deferred are treated as non-cash items in the consolidated statements of cash flows in the year of the deferral.

Cash and Cash Equivalents—Cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Restricted Cash—Wabash Valley Power's restricted cash includes amounts received as collateral to cover default by the supplier during development of a solar project. The funds are held in escrow and will be returned to the supplier upon commercial operation of the facility, or if replaced by a letter of credit. The following table reconciles cash, cash equivalents and restricted cash reported on the balance sheet with those amounts shown in the statement of cash flows.

	2019	**2018**
Cash and cash equivalents	$80,538	$84,600
Restricted cash	10,215	14,554
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$90,753	$99,154

Asset Impairment—Long-lived assets are reviewed for impairment when events or circumstances change that could impact the recoverability of the asset's carrying amount. There were no impairments recorded during 2019 or 2018.

Inventories—Fuel stock and materials and supplies are valued at average cost. The costs of fuel and materials used in production are expensed as consumed and are recovered through rates.

Revenue Recognition—Wabash Valley Power recognizes revenue each period as energy or other utility services are delivered and consumed. Performance obligations are satisfied over time as energy and services are delivered and consumed. Substantially all of the Company's revenue is derived from contracts with a single performance obligation (delivery of energy and utility services) which does not result in any future performance obligations for disclosure purposes.

Wabash Valley Power categorizes revenue based on customer classification which aligns with the pricing tariffs approved by FERC. The disaggregated revenues by each class for 2019 are as follows:

	2019
(in thousands)	
Member	$ 577,865
Non-member	67,657
Total Operating Revenues	$ 645,522

Member billed revenues reflect estimated power supply costs based on the current year's board-approved operating budget. Per the Formula Rate Tariff, member bills are adjusted in the subsequent year to collect or refund the difference between actual and estimated costs of power supply. Differences are shown as under recovered power costs or over collected power costs on the consolidated balance sheets. The over collected balance at December 31, 2019 and 2018 was $20.5 million and $16.0 million, respectively.

Use of Estimates—The preparation of consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the consolidated financial statements are based on management's evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements. Actual results may differ from those estimates.

Concentration of Risk—Approximately 23% of Wabash Valley Power's total revenues for 2019 and 2018 were derived from sales to two members, Citizens Electric Corporation (Citizens) and Hendricks Power Cooperative (Hendricks). Accounts receivable balances for Citizens and Hendricks account for 12% of total accounts receivable as of December 31, 2019 and 17% as of December 31, 2018.

Plant in Service and Maintenance—Plant in service is stated at original cost, which includes labor, materials, overheads, and interest on borrowed funds used during construction (for major projects only). Maintenance and repairs of plant and replacement of items determined to be less than units of property are charged to maintenance expense as incurred.

When assets other than general plant are retired, sold or otherwise disposed of, the original cost plus the cost of removal, less salvage, is charged to accumulated depreciation and the corresponding gain or loss is amortized over the remaining life of the plant. Losses included in accumulated depreciation that will continue to be amortized are ($26.6) million and $(25.7) million at December 31, 2019 and 2018, respectively. As general plant assets are retired, the resulting gain or loss is recognized in the consolidated statements of operations.

Also included in accumulated depreciation are costs of removal for assets that do not have associated legal or contractual retirement obligations. Wabash Valley Power estimates that a regulatory liability related to these removal costs has been recorded in accumulated depreciation on the consolidated balance sheets at December 31, 2019 and 2018 of $51.2 million and $46.2 million, respectively.

Wabash Valley Power's ownership in the Prairie State Energy Group LLC (Prairie State) also includes an interest in coal reserves. The original cost, net of depletion, at December 31, 2019 and 2018 was $2.8 million and $2.9 million, respectively.

Depreciation—Plant in service is depreciated on a straight-line basis at rates designed to recover the cost of properties over their estimated service lives. The resulting average depreciation rates by plant function at December 31 were as follows:

	2019	**2018**
Steam production	4.12 %	4.15 %
Other production	3.51	3.47
Transmission	2.17	2.18
Distribution	4.02	4.16
Other utility	3.70	3.70
General	6.49	7.34

Federal Income Taxes—Wabash Valley Power is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(12) as long as member gross margins are at least 85% of total gross margins. Member gross margins as a percent of total gross margins for 2019 and 2018 were greater than 85%. As a result, no provision for federal income taxes was made during either year.

The Company has adopted guidance governing uncertain income tax positions that sets forth recognition thresholds and measurement attributes for financial statement recognition. The guidance did not result in the recording of any uncertain tax position liabilities as of December 31, 2019 and 2018. Tax years 2016 through 2019 remain open and could be subject to audit by the IRS.

3. RETIREMENT PLANS

Multiemployer Plan-Qualified employees of the Company are members of a pension plan sponsored by the National Rural Electric Cooperative Association (NRECA). The NRECA Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and is tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Contributions to the RS Plan by Wabash Valley Power in 2019 and 2018 represented less than 5% of the total contributions made to the plan by all participating employers. Wabash Valley Power's contributions in 2019 were $1.4 million. The Company had no contributions in 2018 due to the Company making a prepayment to the RS Plan in 2015.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on both January 1, 2019 and January 1, 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Retirement Savings Plan-Employees of the Company may voluntarily participate in the 401(k) savings plan offered through NRECA. Wabash Valley Power makes matching contribution payments to NRECA for the benefit of those employees who participate in the plan. The Company expenses the payments as incurred, and contributions were $203,000 and $174,000 for 2019 and 2018, respectively.

Deferred Compensation Plan-Wabash Valley Power maintains a nonqualified deferred compensation plan to provide supplemental retirement benefits for certain employees. The following table sets forth the accumulated post-retirement benefit obligation, the change in plan assets, and the components of accumulated post-retirement benefit cost and net periodic benefit cost.

(In Thousands)	2019	2018
Accumulated benefit obligation—beginning of year	$ 1,091	$ -
Plan amendments (new entrants to plan)	-	1,059
Service cost	91	23
Interest cost	45	11
Actuarial gain(loss)	113	(2)
Accumulated benefit obligation—end of year	$ 1,340	$ 1,091
Fair value of plan assets—beginning of year	-	-
Company contributions	-	-
Benefits paid	-	-
Fair value of plan assets—end of year	-	-
Funded status—pension liability (deferred credits)	$ (1,340)	$ (1,091)
Service cost	$ 91	$ 23
Interest cost	45	11
Amortization of prior service cost	146	37
Net periodic benefit cost	$ 282	$ 71
Unrecognized actuarial loss (gain)	$ 987	$ 1,020
Accumulated other comprehensive (income) loss	$ 987	$ 1,020

4. RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued Accounting Standards Update 2014-09 Revenue from Contracts with Customers (ASU 606). This update requires entities to recognize revenue when the transfer of promised goods or services to customers occurs in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company has adopted this standard effective January 1, 2019, using the modified retrospective approach. Wabash Valley Power has not identified any material change in the recognition of revenue from the sale of goods or services to customers prescribed under ASU 606, therefore, no cumulative effect adjustment has been recognized.

In February 2016, the FASB issued ASU 2016-2—Leases. The standard will increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective for Wabash Valley Power beginning January 2021 and is being evaluated to determine the overall impact it will have on the consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15—Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The standard provides consistency in the reporting of certain cash receipts and payments in the statement of cash flows. The standard is effective for Wabash Valley Power beginning January 2020, with early adoption permitted. The Company is evaluating the changes the standard may have on the statement of cash flows as currently presented.

In November 2016, the FASB issued ASU 2016-18—Statement of Cash Flows: Restricted Cash. The standard clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows. The standard was effective for Wabash Valley Power beginning January 2019 and the Company has included the required financial statement presentation and disclosure requirements for all periods presented (see Note 2 – Restricted Cash).

5. PLANT IN SERVICE

Plant in service at December 31 consists of the following:

(In Thousands)	**2019**	**2018**
Production	$ 699,826	$ 705,494
Transmission	316,392	280,001
Distribution	91,596	84,457
Other utility	12,261	12,181
General	39,408	17,479
Plant in service	$ 1,159,483	$ 1,099,612

Wabash Valley Power has an agreement with Duke Energy Indiana, Inc. (Duke Indiana) and Indiana Municipal Power Agency (IMPA) that provides for an undivided 25% ownership interest in the Gibson Unit No. 5 production facility.

Wabash Valley Power has an agreement with Duke Indiana that provides for an undivided 37.5% ownership interest in the Vermillion generating facility.

Wabash Valley Power has an agreement with Hoosier Energy REC (Hoosier) that provides for a one-third ownership interest in the Lawrence generating facility.

Wabash Valley Power and Hoosier jointly own the Holland generating facility. The agreement provides each owner with an undivided 50% ownership in the facility.

Wabash Valley Power has an undivided 5.06% ownership interest in Prairie State, which includes coal reserves and a captive coal mine that serves as the fuel source for the power plant.

Wabash Valley Power jointly owns certain transmission property and local facilities with Duke Indiana and IMPA. These facilities are part of the joint transmission system (JTS) maintained by Duke Indiana.

A substantial portion of Wabash Valley Power’s utility plant and related operation and maintenance expenses is included under the terms of the above agreements.

6. INVESTMENTS

Investments at December 31, 2019 and 2018 consist of the following:

(In Thousands)	2019	2018
Capital term certificates—CFC	$ 3,819	$ 4,086
Cooperative investment patronage allocation	11,905	10,465
Investment in associated organizations	8,078	578
Total	$23,802	$15,129

The capital term certificates (CTCs) bear interest ranging from 0% to 5.6% and were required in order to borrow from the National Rural Utilities Cooperative Finance Corporation (CFC). All investments with CFC are classified as held-to-maturity investments and are reported at cost.

Wabash Valley Power's cooperative investment patronage allocations are reported at cost, plus allocated equities.

Investments in associated companies are reported at cost, plus allocated equities.

Wabash Valley Power also has authority to make short-term investments. The amounts invested at December 31, 2019 and 2018 were $0 million and $20 million, respectively. As held-to-maturity investments that will mature in less than one year, the notes and commercial paper are carried at cost, which approximates fair value, in short-term investments on the consolidated balance sheets. There were no gains or losses recorded during the year.

7. LONG-TERM OBLIGATIONS

Debt—Wabash Valley Power's long-term debt, as of December 31, consists of the following:

(In Thousands)		2019	2018
First Mortgage Notes (due in quarterly installments):			
Series 1999-B	7.45%–9.10%; due April 2019	$ -	$ 469
Series 2000-A	3.45% thru Jan. 2020; due 2030	2,210	2,369
Series 2000-A	3.6%; due April 2021	707	1,154
Series 2001-A	3.6%–6.95%; due July 2027	964	1,070
Series 2003-B	6.65%–7.15%; due Oct. 2023	2,775	3,355
Series 2004-A	5.08%; due April 2024	44,597	53,205
Series 2004-B	4.59%; due April 2019	-	1,366
Series 2004-C	6.00%; due April 2024	4,481	5,373
Series 2004-D	5.56%; due December 2024	10,633	12,658
Series 2005-A	5.25%; due July 2025	8,002	9,164
Series 2006-A	6.44%–6.87%; due April 2028	13,679	15,149
Series 2007	6.14%–6.24%; due January 2028	95,573	103,802
Series 2009-A	7.39%–7.71%; due January 2039 (a)	90,000	90,000
Series 2009-B	7.22%; due January 2039	82,134	84,047
Series 2009-C	0%–1.5%; due December 2021 (b)	2,015	3,023
Series 2012	3.28% thru January 2020; due July 2032 (c)	29,950	31,250
Series 2012	4.58%; due July 2032 (d)	20,587	20,587
Series 2015-A	3.87%; due July 2045	38,850	39,200
Series 2015-B	4.03%; due July 2045	38,850	39,200
Series 2016-A	3.65%; due June 2031	44,650	48,450
Series 2016-B	3.54%; due April 2046	35,630	36,975
Series 2016-C	3.56%; due October 2047	31,870	33,008
Series 2016-D	2.63%; due May 2036	16,750	17,750
Series 2018-A	4.01%; due October 2048	82,167	85,000
Series 2018-B	4.05%; due April 2049	39,333	-
Tax-Exempt Bonds (due in quarterly installments)—			
Series 2010-A	2.56% thru February 2019; due Jan. 2031 (e)	27,000	29,000
Unsecured Notes (due in quarterly installments)—			
Series 2005	2.75%–6.15%; due July 2025	4,831	5,533
Total long-term debt		$768,238	$772,157
Less current maturities		45,941	43,242
Less debt issuance costs		1,831	2,229
Total long-term debt—net of current maturities and debt issuance costs		$720,466	$726,686

(a) Remaining balance due in quarterly installments beginning April 2020

(b) Due in annual installments

(c) Variable rate on debt with swap to effectively fix the rate at 3.75% (see Note 12—Derivative Instruments)

(d) Due at maturity

(e) Variable rate on debt with swap to effectively fix the rate at 3.49% (see Note 12—Derivative Instruments)

Wabash Valley Power issues secured debt under an Indenture of Mortgage, Security Agreement and Financing Statement (Indenture). The Indenture requires the Company to design rates that shall, on an annual basis, yield a minimum times interest earned ratio (TIER) of 1.0 and a debt service coverage (DSC) ratio of 1.10. The TIER and DSC for the year ended December 31, 2019 were 1.64 and 1.42, respectively. Under the Indenture, Wabash Valley Power may retire patronage capital provided members' capital as of the end of the most recent fiscal quarter is not less than 20% of total long-term debt and members' capital (See Note 14—Members' Patronage Capital Equity).

The First Mortgage Notes are collateralized by the Company's generation, transmission, distribution and general plant assets (excluding transportation equipment).

Debt issuance costs are being amortized over the lives of the related debt on a straight-line basis.

Estimated future maturities on long-term obligations as of December 31, 2019 are as follows:

(In Thousands)

2020	$ 45,941
2021	45,911
2022	46,467
2023	46,935
2024	45,740
Thereafter	537,244
Total long-term debt	$768,238

Credit Facility—The Company has a $400 million syndicated revolving credit facility that expires in August 2022. The facility can be used to finance the general operating needs of the Company, provide interim financing of capital projects, and provide letters of credit to power supply counterparties to support purchase and sale obligations. There were no amounts outstanding under the agreement at either December 31, 2019 or 2018.

8. CAPITAL LEASE OBLIGATIONS

Wabash Valley Power has entered into a purchased power agreement for 199 MW of solar generation. The agreement will end 27 years after the facility's commercial operation date, which is expected to be mid-2023. Wabash Valley Power has classified the agreement as a capital lease, however, the Company is not considered the asset owner during construction so no lease obligations have been recorded as of December 31, 2019. Future minimum lease payments are estimated to be $0 due to the intermittent nature of the resource. Pricing per the contract is considered variable as payments are only required by Wabash Valley Power if there is energy produced from the facility.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, temporary cash investments, restricted cash, trustee deposits, CTCs, receivables, certain other liabilities and long-term debt are considered to be financial instruments. The carrying value of cash, temporary cash investments, trustee deposits, receivables and certain other liabilities approximate the fair value because of the short maturity of the instruments. The fair value of the CFC CTCs and other investments are not estimable since these instruments are required to be held by Wabash Valley Power as a condition of membership and can only be returned to the investee.

The Company uses observable inputs in the calculation of fair value. ASC 820—Fair Value Measurement and Disclosures (ASC 820) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the hierarchy are described below.

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2—Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3—Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

Wabash Valley Power's gas futures derivatives were valued using Level 1 inputs, which consist of quoted market prices from active exchange markets.

The Company's power contract derivatives were calculated using broker quotes or appropriate pricing models with primarily externally verifiable model inputs. These valuations are considered Level 2.

The interest rate swap derivatives were valued using yield curves derived from current interest rates and spreads to project and discount swap cash flows to present value. These valuations are considered Level 2.

10. DEFERRED CHARGES AND CREDITS

Amounts recorded as deferred charges as of December 31, 2019 and 2018, are as follows:

(In Thousands)	**2019**	**2018**
Regulatory asset—unrealized losses on derivative instruments	$ 87,056	$ 80,956
Regulatory asset—contract termination cost	4,204	4,595
Fair value of derivative instruments	73	56
Contributions for transmission upgrades	1,263	1,632
Plant retirement and decommissioning costs	68,487	73,253
Other deferred charges	2,310	2,483
Total deferred charges	$ 163,393	$ 162,975

Wabash Valley Power has FERC approval to defer all unrealized gains and losses on derivative and hedging contracts. Amounts are recorded as a regulatory asset or liability until the derivative is settled, at which time the gain or loss is recognized in earnings.

A power supply contract with Duke Energy Vermillion LLC (Duke Energy) was terminated in 2004 when the Company acquired an ownership interest in the Vermillion generating facility (see Note 5—Plant in Service). Wabash Valley Power received regulatory approval to defer the termination costs and amortize them over the remaining life of the plant (through September 2030).

The Company has power, gas futures and interest rate contracts that qualify as derivative instruments under FASB ASC 815—Accounting for Derivative Instruments and Hedging Activities (ASC 815), as amended. These contracts are recorded at fair value in the consolidated balance sheets. See Note 12—Derivative Instruments for the recovery period of derivative contracts.

Wabash Valley Power has made contributions to transmission providers to upgrade or install facilities for the sole benefit of Wabash Valley Power's member systems. The facilities are not owned by Wabash Valley Power and the amounts are billed to the respective Wabash Valley Power customers over a negotiated term, with all amounts to be recovered by April 2048.

Wabash Valley Power has FERC approval to defer all costs associated with the retirement and decommissioning of WRU1 and the discontinued operations of a coal gasification plant. The deferral is being amortized over 14 years, which approximated the remaining lives of the assets, and continues through May 2030.

Amounts recorded as deferred credits as of December 31, 2019 and 2018, are as follows:

(In thousands)	**2019**	**2018**
Member buy-out payments	$ 6,528	$ 7,311
Regulatory liability—unrealized gains on derivative instruments	73	56
Fair value of derivative instruments	87,056	80,956
Asset retirement obligations	5,661	3,840
Collateral from power provider	-	10,000
Other deferred credits	1,834	1,593
Total deferred credits	$ 101,152	$ 103,756

Paulding Putnam REMC's membership terminated at the end of 2014 and Northeastern REMC's (Northeastern) membership terminated on June 30, 2015. The termination fees received were deferred and are being amortized through April 2028 (see Note 14—Members' Patronage Capital Equity).

Under the terms of a long-term solar purchased power agreement, Wabash Valley Power received collateral in 2018 to cover default by the supplier during the development phase of the project. The funds were replaced by a letter of credit in February 2020, and were classified as a current liability as of December 31, 2019. The letter of credit will be returned to the supplier upon commercial operation of the facility.

11. ASSET RETIREMENT OBLIGATIONS

The Company records its ownership share of legal obligations associated with the retirement of waste landfills and ash ponds at the Gibson Unit No. 5 production facility and mine reclamation and closure costs at the Prairie State generating facility. The obligations are recorded at fair value when incurred and capitalized as a cost of the related asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss.

The following table represents the details of Wabash Valley Power's asset retirement obligations, which are included on the consolidated balance sheets in deferred credits.

(In Thousands)	**2019**	**2018**
Beginning balance	$3,840	$4,236
Liabilities incurred	-	-
Liabilities settled	(35)	(614)
Accretion	144	156
Cash flow revisions	1,712	62
Ending balance	$5,661	$3,840

12. DERIVATIVE INSTRUMENTS

Wabash Valley Power is exposed to various market risks in the normal course of business. Management has established risk management policies to mitigate the potentially adverse effects that these risks may have on member rates. The policies include the use of derivative instruments that generally qualify for the normal purchase and normal sales exception under ASC 815.

Wabash Valley Power enters into power contracts with the primary intent of securing wholesale power requirements for members at the minimum cost, while enhancing the value of Wabash Valley Power's assets and managing the risk associated with volatility in power prices. These contracts generally meet the definition of a derivative as defined in ASC 815. Many of these contracts qualify for the normal purchase and normal sales exception and are not recorded in the consolidated financial statements at fair value. Contracts not meeting the normal purchase and normal sales exception are reflected at fair value on the consolidated balance sheets. Wabash Valley Power values its contracts using market prices from brokers. Notional values of these contracts for 2019 and 2018 were 7.2 million megawatt hours (MWh) and 7.4 million MWh, respectively.

Wabash Valley Power holds gas futures contracts for the primary purpose of mitigating volatility in gas prices related to the operation of its gas-fired plants and as a means to reduce the effect on member rates due to changes in future gas prices. These contracts qualify as derivatives and are recorded at fair value on the consolidated balance sheets. Notional values under these contracts were 10,830,000 MMBtu (million British thermal units) in 2019 and 13,384,000 MMBtu in 2018.

Wabash Valley Power has entered into three interest rate swap agreements with a total remaining notional value of $56.6 million to mitigate the risk associated with changes in floating interest rates on the issuance of variable-rate long-term debt. The swap agreements convert floating rates into fixed rates on a quarterly basis, so the Company can more accurately predict future interest costs and protect itself against increases in floating rates. These contracts qualify as derivatives and are reflected at fair value on the consolidated balance sheets. See Note 7—Long-term Obligations for additional detail.

See Note 9—Fair Value of Financial Instruments for additional information regarding the fair value of these derivatives.

The following reflects the amounts recorded in assets and liabilities at December 31, 2019 and 2018 for the Company's derivative instruments:

(In thousands)	2019	2018
Power contracts:		
Other current assets	$ -	$ 1,503
Deferred charges	67	6
Gas futures:		
Other current assets	59	11
Deferred charges	6	50
Total derivative assets	$ 132	$ 1,570

(In Thousands)	2019	2018
Power contracts:		
Other current liabilities	$ 3,649	$ 262
Deferred credits	82,725	79,708
Gas futures:		
Other current liabilities	58	202
Deferred credits	1,972	1,248
Interest rate swaps:		
Other current liabilities	-	-
Deferred credits	2,359	-
Total derivative liabilities	$ 90,763	$ 81,420

The changes in the fair value of derivative contracts result in unrealized gains and losses, which are reflected in regulatory assets or liabilities, as appropriate, on the consolidated balance sheets (See Note 10—Deferred Charges and Credits). As the contracts are settled, the derivative assets and liabilities and corresponding regulatory assets and liabilities are relieved and amounts are recognized in fuel expense, purchased power, or interest expense, as appropriate.

Net realized losses (gains) recognized in earnings for the years ended December 31, 2019 and 2018 were as follows:

(In Thousands)	2019	2018
Power contracts (purchased power)	$ 11,294	$4,340
Gas futures (fuel expense or purchased power)	178	(523)
Interest rate swaps (interest expense)	216	373

The realized portion of derivative gains and losses is reflected in net cash from operating activities on the consolidated statements of cash flows.

All power and gas futures contracts reflected at fair value on the consolidated balance sheets at December 31, 2019 mature on or before December 31, 2025. The interest rate swaps mature in January 2032 and July 2032. Based on the Company's current credit rating, Wabash Valley Power was required to post cash collateral of $34.6 million under the terms of these agreements as of December 31, 2019.

13. RELATED PARTY TRANSACTIONS

Wabash Valley Power is a member of ACES LLC (ACES), which provides wholesale marketing services and efficiencies of combining the marketing of member power resources. The investment in ACES is accounted for using the cost method of accounting. At December 31, 2019 and 2018, Wabash Valley Power's investment in ACES was approximately $0.5 million.

14. MEMBERS' PATRONAGE CAPITAL EQUITY

Revenues in excess of current period costs (net margins) in any year are considered capital furnished by the members and are credited to the members' individual accounts pursuant to the provisions of its by-laws. Net margins are held by Wabash Valley Power until they are retired and returned, without interest, at the discretion of the Board of Directors and subject to certain restrictions under the Indenture (see Note 7—Long-term Obligations). Amounts returned to members in each of the years 2019 and 2018 was $8.5 million.

Wabash Valley Power's Buyout Policy and Procedure (Buyout Policy) describes the process and obligations for withdrawing from membership. Pursuant to the Buyout Policy, a terminating member continues to be an all-requirements purchaser and member for ten years upon execution of a Supplemental Agreement. During the ten-year period, the terminating member is required to deposit specified amounts into an escrow account, together with accrued interest thereon, which is paid to an Escrow Agent. Upon written notice, the terminating member can elect to cancel the Supplemental Agreement prior to the end of the seventh year, receive all escrow funds and continue its membership in Wabash Valley Power.

15. COMMITMENTS, CONTINGENCIES AND PENDING LITIGATION

Long-Term Supply Agreements—Wabash Valley Power has several long-term power supply agreements that obligate the Company to purchase power at amounts specified in the agreements without regard to whether it takes delivery of such power. All of these power supply agreements expire on or before December 31, 2035, and the total amount of these future purchase obligations is approximately $1,229.1 million as of December 31, 2019. The amounts by year are as follows:

(In Thousands)

2020	109,299
2021	126,158
2022	127,323
2023	97,854
2024	93,865
Thereafter	674,637

Wabash Valley Power also has long-term power supply agreements that are supplier cost-based. The costs are part of a formulary rate and vary from year to year. Volumes under these agreements are approximately 305 megawatts (MW) per year and all agreements expire on or before December 31, 2032.

Amounts paid under long-term agreements were $242.8 million and $278.0 million in 2019 and 2018, respectively.

Solar Financing Obligation - Future payments associated with the financing of solar facilities are as follows:

2020	$ 630
2021	661
2022	661
2023	661
2024	661
Thereafter	3,842
	$ 7,116
Less debt issuance costs	54
Total solar financing obligatoin - net of debt issuance costs	$ 7,062

Guarantees—Wabash Valley Power's Board of Directors has authorized the following guarantees related to the Company's 50% ownership of the Holland generating facility.

- Guarantee up to $10 million of activities related to operations, fuel purchasing, financial and construction activities. A guarantee for $6 million is outstanding as of December 31, 2019.

- Guarantee up to $0.1 million of MISO activities. A guarantee to MISO for $0.1 million is outstanding as of December 31, 2019.

As of December 31, 2019 and 2018, Wabash Valley Power has recorded its 50% ownership share of the liabilities of the Holland generating facility.

Pending Litigation -- On October 1, 2018, Tipmont Rural Electric Membership Corporation ("Tipmont") filed a Complaint at the Federal Energy Regulatory Commission ("Commission") in Docket No. EL19-2-000 requesting that the Commission find that Tipmont may terminate service early under its wholesale power supply contracts ("Tipmont Contracts") with Wabash Valley Power subject to Tipmont's paying any demonstrated stranded costs that Wabash Valley Power may incur as a result of early termination. Tipmont also requested that the Commission initiate an investigation into the justness and reasonableness of certain of the contracts' rates terms and conditions, including the validity of certain rates, terms and condition of service that Tipmont alleges have never been filed with the Commission, specifically, Wabash Valley Powers's Buy Out Policy D-2. On the same date, Tipmont notified Wabash Valley Power that it intends to terminate the purchase of service under the Tipmont Contracts from Wabash Valley Power as of January 1, 2020, and that it is willing to pay fair and appropriate stranded costs approved by the Commission.

On November 5, 2018, Wabash Valley Power filed its Answer to Tipmont's Complaint asking the Commission to reject Tipmont's request to be allowed to terminate service early under the Commission-filed Tipmont Contracts without complying with the ten-year notice and buyout provisions contained in the Tipmont Contracts, reject Tipmont's request that the Commission determine the level of Tipmont's buyout costs under an inapplicable stranded cost formula and reject Tipmont's invitation to investigate other wholesale contract rates, terms and conditions.

On September 19, 2019, the Commission issued an order ("Order") holding the Complaint proceeding in abeyance to provide Wabash Valley Power time to prepare a Federal Power Act ("FPA") Section 205 filing proposing rates, terms and conditions to govern the early termination of the Tipmont Contracts or, if Wabash Valley Power does not submit the Section 205 filing within 90 days of the date of the Order, for Wabash Valley Power to submit a status report to the Commission no later than that date indicating whether – and, if so, when – Wabash Valley Power intends to make such a filing.

Wabash Valley Power submitted a status report with the Commission on December 12, 2019, in the Complaint proceeding informing the Commission that on December 4, 2019, the Wabash Valley Power Board of Directors authorized the filing of an unexecuted 10-year buyout agreement containing the rates, terms and conditions for the early termination of the Tipmont Contracts that are consistent with the terms of the Tipmont Contracts and Policy D-2, subject to Wabash Power obtaining the requisite approval of the holders ("Lenders") of a majority of the obligations issued and outstanding under Wabash Valley Power's Mortgage and Indenture of Trust. On January 31, 2020, Wabash Valley Power obtained the requisite approval of its Lenders.

On February 20, 2020, Wabash Valley Power filed the unexecuted agreement under FPA Section 205 at the Commission in Docket No. ER20-1041-000 ("Section 205 Filing") containing the rates, terms and conditions for the early termination of the Tipmont Contracts and requested that the agreement be effective on April 20, 2020. On that same day, Wabash Valley Power filed a second status report with the Commission in the Complaint proceeding notifying the Commission that it had obtained the requisite approval of its Lenders and had filed the unexecuted agreement in the Section 205 Filing.

On February 24, 2020, Tipmont moved to intervene in the Section 205 Filing and requested an 11-day extension of time until March 23, 2020 to file its protest of Wabash Valley Power's filing. On March 2, 2020, the Commission denied Tipmont's motion for an extension of time.

On March 12, 2020, Tipmont filed a protest and motion for partial summary disposition to Wabash Valley Power's Section 205 Filing alleging it is unjust and unreasonable because Wabash Valley Power did not use the Commission's formula for calculating stranded costs and is requesting a substantially excessive stranded cost number.

Under the FPA, Wabash Valley Power's Section 205 Filing will become effective 60 days after filing absent Commission action within that period. Such action could be to (i) reject the Section 205 Filing as patently deficient, without prejudice, (ii) reject the Section 205 Filing as unjust and unreasonable, or (iii) find, based on the record before it, that it cannot find the Section 205 Filing is just and reasonable, accept the Section 205 Filing, suspend the filing for a period not to exceed five (5) months, set the matter for hearing to determine whether it is just and reasonable, and permit the newly accepted rate to become effective at the end of the suspension period, subject to refund based upon the ultimate outcome of the proceeding.

In any event, if the Commission determines that Tipmont may terminate service early, whether based on Wabash Valley Power's Section 205 Filing or otherwise in the Complaint proceeding, it should not have a material adverse effect on Wabash Valley Power because Tipmont has admitted that it is willing to pay and will be required by the Commission to pay Wabash Valley Power the amount of stranded costs that the Commission determines is just and reasonable and because the remaining members of Wabash Valley Power will continue to pay rates to Wabash Valley Power under its Commission-approved Formulary Rate Tariff that ensures that Wabash Valley Power collects all of its costs and expenses, plus a small margin from the members.

Environmental Matters—The Environmental Protection Agency (EPA) issued the Cross State Air Pollution Rule (CSAPR) in July 2011 that limits sulfur dioxide (SO2) and nitrogen oxide (NOx) emissions at generating facilities, which became effective on January 1, 2015 due to delays in litigation. In 2016, the EPA finalized the Cross-State Air Pollution Rule Update for the 2008 Ozone NAAQS (CSAPR II). CSAPR II replaced the NOx Ozone Season allowance-trading program established in CSAPR. At this time, the Company's assets are subjected to the Acid Rain Program, CSAPR SO2 Group 1, CSAPR Annual NOx and CSAPR II Group 2 Ozone Season NOx allowance trading programs. The Company purchases allowances needed to comply and the impact to the cost of operations is immaterial.

In late 2013 and mid-2014, the EPA proposed a suite of standards to regulate carbon emissions from new, existing, modified and reconstructed power plants. These standards were finalized in August 2015, but have been stayed by the U.S. Supreme Court. With the advent of the Republican administration, the Clean Power Plan (CPP), which is applicable to existing power plants, was replaced with the Affordable Clean Energy (ACE) Rule on June 19, 2019. Further, the EPA is proposing revisions to the carbon emissions standards affecting new, modified and reconstructed power plants. Wabash Valley Power has engaged with other utilities and state agencies to minimize the impact of the current rules on its facilities, while developing a strategy to provide meaningful input on the replacement rules. In addition, the EPA tightened the Ozone National Ambient Air Quality Standards (NAAQS) and revised the Steam Electric Effluent Guidelines in 2015. The Company estimates the cost impact to its facilities to be minimal. However, the Company cannot accurately estimate the impact they will have on the costs charged by suppliers under the Company's various power supply agreements.

On April 17, 2015, the EPA published in the Federal Register a rule to regulate the disposal of coal combustion residuals (CCR) from electric utilities as solid waste. The federal regulation, which became effective in October 2015, classifies CCR as nonhazardous waste and allows for beneficial use of CCR with some restrictions. The regulation applies to all new and existing landfills, new and existing surface impoundments receiving CCR and existing surface impoundments that are no longer receiving CCR but contain liquid located at stations currently generating electricity (regardless of fuel source). The rule establishes requirements regarding landfill design, structural integrity design and assessment criteria for surface impoundments, groundwater monitoring and protection procedures and other operational and reporting procedures to ensure the safe disposal and management of CCR. In addition to the requirements of the federal CCR regulation, CCR landfills and surface impoundments will continue to be independently regulated by most states. The Company recorded an asset retirement obligation (ARO) during 2015 because of these new rules. Cost recovery for future expenditures will be pursued through the normal ratemaking process.

The ARO amount recorded on the consolidated balance sheets is based upon estimated closure costs for impacted ash impoundments. The amount recorded represents the discounted cash flows for estimated closure costs based upon closure plans. Actual costs to be incurred will be dependent upon a variety of specific factors. The most significant factors are the method and time frame of closure at the site. The ultimate method and timetable for closure will comply with standards set by federal and state regulations. The ARO amount will be adjusted as additional information is gained through the closure process, including acceptance and approval of compliance approaches that may change management assumptions, and may result in a material change to the balance. Asset retirement costs for operating plants and retired plants are included in Plant in service and the associated AROs are recorded in Deferred Credits (see Note 11—Asset Retirement Obligations).

16. SUBSEQUENT EVENTS

The consolidated financial statements include a review of subsequent events through March 20, 2020, the date the consolidated financial statements were issued.

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