Wabash Valley Power Association, Inc.

Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Wabash Valley Power Association, Inc.
Indianapolis, Indiana

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, 2017 and 2016, 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, 2017 and 2016, 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, 2018

WABASH VALLEY POWER ASSOCIATION, INC.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
ASSETS		
PLANT:		
In service—at original cost	$ 1,102,886	$ 1,014,156
Construction work in progress	35,075	62,044
Less accumulated depreciation	(378,386)	(347,727)
	759,575	728,473
CURRENT ASSETS:		
Cash and cash equivalents	51,539	65,145
Short-term investments	-	5,000
Restricted assets	459	-
Accounts receivable	123,134	104,957
Fuel stock and material inventory—at average cost	16,762	17,590
Other	13,340	3,781
	205,234	196,473
OTHER ASSETS:		
Investments	14,034	13,288
Deferred charges	173,420	168,850
	187,454	182,138
TOTAL ASSETS	$ 1,152,263	$ 1,107,084
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Patronage capital equity	$ 208,303	$ 197,803
Line of credit borrowings	30,000	-
Capital lease obligations	1,481	-
Long-term debt	684,624	690,000
	924,408	887,803
CURRENT LIABILITIES:		
Current portion of long-term debt	39,240	37,009
Accounts payable	63,216	65,543
Accrued interest	6,363	6,512
Accrued taxes other than income	4,371	4,279
Over collected power costs	798	10,339
Other	14,653	4,940
	128,641	128,622
DEFERRED CREDITS	99,214	90,659
TOTAL CAPITALIZATION AND LIABILITIES	$ 1,152,263	$ 1,107,084

See notes to consolidated financial statements.

WABASH VALLEY POWER ASSOCIATION, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
OPERATING REVENUES:		
Member	$574,107	$578,098
Other	128,287	129,410
	702,394	707,508
OPERATING EXPENSES:		
Fuel	39,231	51,766
Operation and maintenance	56,086	54,666
Purchased power	489,655	488,745
Administrative and general	15,930	15,770
Other taxes	611	583
Depreciation and amortization	48,599	41,462
	650,112	652,992
OPERATING MARGIN	52,282	54,516
OTHER EXPENSES (INCOME):		
Interest expense—net of amounts capitalized	38,952	37,521
Interest income	(4,533)	(3,389)
Miscellaneous income and deductions—net	(1,137)	(616)
	33,282	33,516
NET MARGIN	19,000	21,000
PATRONAGE CAPITAL—Beginning of year	197,803	191,803
PATRONAGE CAPITAL RETIREMENT	(8,500)	(15,000)
PATRONAGE CAPITAL—End of period	$208,303	$197,803

See notes to consolidated financial statements.

WABASH VALLEY POWER ASSOCIATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
OPERATING ACTIVITIES:		
Net margin	$ 19,000	$ 21,000
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	48,599	41,462
Equity in losses of unconsolidated affiliates	-	17,000
Changes in certain assets and liabilities:		
Accounts receivable	(18,177)	(28,814)
Fuel stock and material inventory	828	6,562
Over collected/under recovered power costs	(9,541)	7,580
Accounts payable	(5,863)	4,575
Other assets	(1,046)	(9,751)
Other liabilities	(1,783)	(10,385)
Net cash provided by operating activities	32,017	49,229
INVESTING ACTIVITIES:		
Capital expenditures	(70,456)	(62,019)
Purchase of interest in Praire State	-	(57,000)
Restricted assets	(459)	-
Proceeds from sale of property, plant and equipment	2,400	2,400
Proceeds from investments	13,403	8,308
Purchase of investments	(9,149)	(4,352)
Other	-	(463)
Net cash used in investing activities	(64,261)	(113,126)
FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	35,000	117,000
Change in line of credit borrowings	30,000	-
Patronage capital retirements	(8,500)	(15,000)
Payment on long-term debt	(37,862)	(33,410)
Net cash provided by financing activities	18,638	68,590
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,606)	4,693
CASH AND CASH EQUIVALENTS—Beginning of period	65,145	60,452
CASH AND CASH EQUIVALENTS—End of period	$ 51,539	$ 65,145
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest	$ 38,546	$ 36,762
Non-cash investing and operating activities:		
Additions to electric plant included in accounts payable	$ 3,536	$ 7,058
Non-cash investing and financing activity—capital lease obligation	$ 1,624	$ -

See notes to consolidated financial statements.

1. ORGANIZATION

Organization—Wabash Valley Power Association, Inc. ("Wabash Valley Power" or the "Company") is a non-profit 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.

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 2018.

Wabash Valley Power had a 50% interest in sgSolutions LLC (sgSolutions) whose assets consisted of a coal gasification plant located in West Terre Haute, Indiana. Under the terms of a tolling agreement, Wabash Valley Power purchased, at cost, 100% of the synthetic gas and steam produced by sgSolutions as a fuel source for the Company's Wabash River Station Combined Cycle (WRCC). TIAA SynGas LLC (TIAA) owned the remaining 50%. TIAA received a monthly management fee from sgSolutions (see Note 12—Related Party Transactions) and Wabash Valley Power retained all net income or loss generated by sgSolutions. The assets of sgSolutions were sold in May 2016 and the partnership dissolved in November 2016 (see Note 4—Plant in Service).

Basis of Consolidation—Due to Wabash Valley Power's ownership and control over the operations of sgSolutions and of Energy Marketing, those entities have been included in the consolidated financial statements of Wabash Valley Power 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 9—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.

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 2017 or 2016. As discussed in Note 4—Plant in Service, the Company retired certain assets in 2016 prior to being fully recovered in rates.

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—Revenue is recognized each period when energy is delivered to Wabash Valley Power's members or other non-member organizations. 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, 2017 and 2016 was $0.8 million and $10.3 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 10% of Wabash Valley Power's total revenues for 2017 and 2016 were derived from sales to Citizens Electric Corporation (Citizens). Accounts receivable balances for Citizens account for 7% of total accounts receivable as of December 31, 2017 and 2016.

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 are ($24.8) million and ($24.3) million at December 31, 2017 and 2016, respectively, that will continue to be amortized. As general plant assets are retired, the resulting gain or loss is recognized in the 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, 2017 and 2016 of $42.8 million and $40.5 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, 2017 and 2016 was $3.0 million and $3.1 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:

	2017	**2016**
Steam production	4.13 %	2.33 %
Other production	3.46 %	3.40 %
Manufactured gas	N/A	5.00 %
Transmission	2.15 %	2.13 %
Distribution	4.03 %	3.99 %
Other utility	3.70 %	3.70 %
General	5.95 %	5.46 %

In late 2016, Wabash Valley Power received FERC approval to change the estimated service lives of its coal assets. Wabash Valley Power's ownership share of Prairie State and Gibson Unit No. 5, along with any future additions, will be fully recovered by the end of 2031. The new rates were effective January 2017 and resulted in $4.6 million of additional depreciation expense in 2017.

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 2017 and 2016 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, 2017 and 2016. Tax years 2014 through 2017 remain open and could be subject to audit by the IRS.

Retirement Plans—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 a multi-employer 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 multi-employer 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 2017 and 2016 represented less than 5 percent of the total contributions made to the plan by all participating employers. Wabash Valley Power had no contributions to the plan in 2017 or 2016 due to the Company making a prepayment to the RS Plan in 2015 (See Note 9—Deferred Charges and Credits).

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 percent funded at both January 1, 2017 and January 1, 2016 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.

Employees may also 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 $144,000 and $133,000 for 2017 and 2016, respectively.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU 2014-09—Revenue from Contracts with Customers. The standard provides guidance on the recognition of revenue from contracts with customers and requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. In August 2015, FASB issued ASU 2015-14 delaying the effective date to January 2019. The new standard can be adopted either retrospectively to each reporting period or as a cumulative-effect adjustment as of the date of adoption. The Company continues to evaluate the impacts of the standard to determine the overall impact it will have on the consolidated financial statements and related disclosures.

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 2020 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. The standard is effective for Wabash Valley Power beginning January 2019. The Company is evaluating the changes the standard may have on the statement of cash flows as currently presented.

4. PLANT IN SERVICE

Plant in service at December 31 consists of the following:

(In thousands)	2017	2016
Production	$ 755,579	$ 719,794
Transmission	245,207	199,612
Distribution	72,703	67,035
Other utility	12,003	11,680
General	17,394	16,035
Plant in service	$1,102,886	$1,014,156

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.

In November 2015, Wabash Valley Power's Board of Directors voted to retire the steam turbine (WRU1) at the WRCC plant during 2016 prior to being fully recovered in rates. The combustion turbine (WRU8) at Wabash River Station will remain in service with the ability to dispatch on natural gas. The Board of Directors also voted to take the steps necessary to discontinue operations at sgSolutions, resulting in the write-off of costs associated with the investment in sgSolutions. Wabash Valley Power filed a petition with FERC pursuant to Section 205 of the Federal Power Act (205 Filing) requesting approval to recover all costs associated with the planned early retirement and decommissioning of WRU1 and sale of sgSolutions. The Company also filed a request with FERC for accounting treatment related to the planned early retirements, pending approval of the 205 Filing. In accordance with ASC 980, the Company requested to establish a regulatory asset and amortize the balance over a period of 14 years, which approximates the remaining useful life of the assets. In March 2016, the Company received approval from FERC on both requests.

In April 2016, the Company terminated the tolling agreement with sgSolutions and the assets were sold in May 2016. In October 2016, the Company purchased the remaining 50% ownership in sgSolutions from TIAA and dissolved the entity in November 2016. A charge, net of proceeds received from the sale of assets, of $52.0 million was recorded as a regulatory asset and is being amortized and recovered in rates through May 2030 (see Note 9—Deferred Charges and Credits).

In June 2016, Wabash Valley Power retired WRU1 and unrecovered costs of the assets retired and related inventory of $31.6 million were recorded as a regulatory asset and are being amortized and recovered in rates through May 2030 (see Note 9—Deferred Charges and Credits).

5. INVESTMENTS

Investments at December 31, 2017 and 2016 consist of the following:

(In thousands)	2017	2016
Capital term certificates—CFC	$ 4,315	$ 4,757
Cooperative investment patronage allocation	9,141	7,953
Investment in associated organizations	578	578
Total	$14,034	$13,288

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.

Wabash Valley Power also has authority to make short-term investments. The amount invested at December 31, 2017 was $0 and December 31, 2016 includes $5.0 million of CFC medium-term notes. 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.

6. LONG-TERM OBLIGATIONS

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

(In thousands)		**2017**	**2016**
First Mortgage Notes (due in quarterly installments):			
Series 1999-B	7.45%-9.10%; due April 2019	$ 1,352	$ 2,166
Series 2000-A	5.30% thru Jan. 2019; due 2030	2,511	2,646
Series 2000-A	5.30% thru Jan. 2019; due April 2021	1,574	1,974
Series 2001-A	3.55%- 6.95%; due July 2027	1,172	1,268
Series 2003-B	6.65%-7.15%; due Oct. 2023	3,896	4,400
Series 2004-A	5.08%; due April 2024	61,390	69,171
Series 2004-B	4.59%; due April 2019	4,004	6,526
Series 2004-C	6.00%; due April 2024	6,230	7,053
Series 2004-D	5.56%; due December 2024	14,684	16,709
Series 2005-A	5.25%; due July 2025	10,268	11,315
Series 2006-A	6.44%-6.87%; due April 2028	16,509	17,768
Series 2007	6.14%-6.24%; due January 2028	110,346	116,503
Series 2009-A	7.39%-7.71%; due January 2039 [(a)]	90,000	90,000
Series 2009-B	7.22%; due January 2039	85,828	87,486
Series 2009-C	0%-1.5%; due December 2021 [(b)]	4,031	5,038
Series 2012	2.73% thru January 2018; due July 2032 [(c)]	32,550	33,850
Series 2012	4.58%; due July 2032 [(d)]	20,587	20,587
Series 2015-A	3.87%; due September 2045	39,400	39,750
Series 2015-B	4.03%; due September 2045	39,400	39,750
Series 2016-A	3.65%; due June 2031	52,250	56,050
Series 2016-B	3.54%; due April 2046	38,319	39,664
Series 2016-D	2.63%; due May 2036	18,750	19,750
Series 2017-C	3.56%; due January 2047	34,146	-
Tax-Exempt Bonds (due in quarterly installments)—			
Series 2010-A	1.83% thru February 2018; due Jan. 2031 [(e)]	31,000	33,000
Unsecured Notes (due in quarterly installments)—			
Series 2005	2.75%-6.15%; due July 2025	6,202	6,837
Total long-term debt		$726,399	$729,261
Less current maturities		39,240	37,009
Less debt issuance costs		2,535	2,252
Total long-term debt—net of current maturities and debt issuance costs		$684,624	$690,000

(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 11—Derivative Instruments)

(d) Due at maturity

(e) Variable rate on debt with swap to effectively fix the rate at 3.49% (see Note 11—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, 2017 were 1.49 and 1.39, 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 13—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, 2017 are as follows:

(In thousands)	
2018	$ 39,240
2019	40,407
2020	41,248
2021	41,752
2022	42,307
Thereafter	521,445
Total long-term debt	$726,399

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. Amounts outstanding under the agreement at December 31, 2017 and 2016 were $30 million and $0, respectively.

7. CAPITAL LEASE OBLIGATIONS

During 2017, Wabash Valley Power executed three lease agreements for solar generation facilities, with an initial term of fifteen years. At the end of the lease term, Wabash Valley Power can either purchase the facilities or renew the leases for an additional five years. Wabash Valley Power has classified the agreements as capital leases and $1.6 million is included in plant in service on the consolidated balance sheets. Future minimum lease payments are as follows:

(In thousands)	
2018	$ 115
2019	115
2020	115
2021	115
2022	115
Thereafter	1,558
Total minimum lease payments	2,133
Less amounts representing interest at 3.61%	(537)
Present value of minimum lease payments	1,596
Less current maturities	(115)
Long-term capital lease obligations	$1,481

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and temporary cash investments, 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.

9. DEFERRED CHARGES AND CREDITS

Amounts recorded as deferred charges as of December 31, 2017 and 2016, are as follows:

(In thousands)	**2017**	**2016**
Regulatory asset—unrealized losses on derivative instruments	$ 85,831	$ 74,980
Regulatory asset—contract termination cost	4,986	5,377
Fair value of derivative instruments	475	882
Contributions for transmission upgrades	1,978	2,305
Pension funding	-	2,318
Plant retirement and decommissioning costs	78,153	80,826
Other deferred charges	1,997	2,162
Total deferred charges	$173,420	$168,850

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 4—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 11—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.

The Company elected the prepayment option offered under the RS Plan in 2013 that allowed plan members to make a payment contribution and reduce future required contributions. The contribution of $3.3 million was deferred and amortized from January

2013 through December 2016. The Company made an additional prepayment in 2015 and future required cash contributions will be suspended until the prepayment amount is depleted. The contribution of $3.1 million is being amortized monthly based on the amount of contributions that would have been required if the prepayment had not been made. The Company estimates cash contributions will resume in late 2018.

Wabash Valley Power has FERC approval to defer all costs associated with the retirement and decommissioning of WRU1 and the discontinued operations of sgSolutions (see Note 4—Plant in Service).

Amounts recorded as deferred credits as of December 31, 2017 and 2016, are as follows:

(In thousands)	**2017**	**2016**
Member buy-out payments	$ 8,094	$10,132
Regulatory liability—unrealized gains on derivative instruments	475	882
Fair value of derivative instruments	85,831	74,980
Asset retirement obligations	4,236	4,121
Other deferred credits	578	544
Total deferred credits	$99,214	$90,659

Midwest Energy Cooperative (Midwest) terminated membership in Wabash Valley Power effective December 31, 2011 and a portion of Midwest's load is now being served as a non-member sale via another provider. The member termination fee received from Midwest was deferred and is being amortized from January 2012 through December 2017. 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 13—Members' Patronage Capital Equity).

10. 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)	2017	2016
Beginning balance	$4,121	$ 5,046
Liabilities incurred	-	1,329
Liabilities settled	(152)	(118)
Accretion	162	320
Cash flow revisions	105	(2,456)
Ending balance	$4,236	$ 4,121

11. 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 2017 and 2016 were 8.6 million megawatt hours (MWh) and 8.8 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 15,994,000 MMBtu (million British thermal units) in 2017 and 9,434,000 MMBtu in 2016.

Wabash Valley Power has entered into three interest rate swap agreements with a total notional value of $63.6 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 6—Long-term Obligations for additional detail.

See Note 8—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, 2017 and 2016 for the Company's derivative instruments:

(In thousands)	2017	2016
Power contracts:		
Other current assets	$ 296	$ 456
Deferred charges	475	-
Gas futures:		
Other current assets	15	379
Deferred charges	-	882
Total derivative assets	$ 786	$ 1,717

(In thousands)	2017	2016
Power contracts:		
Other current liabilities	$ 9,670	$ 45
Deferred credits	85,167	74,965
Gas futures:		
Other current liabilities	280	53
Deferred credits	664	15
Total derivative liabilities	$95,781	$75,078

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 9—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, 2017 and 2016 were as follows:

(In thousands)	2017	2016
Power contracts (purchased power)	$2,659	$3,377
Gas futures (fuel expense or purchased power)	(325)	1,296
Interest rate swaps (interest expense)	929	1,276

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, 2017 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 $56.4 million under the terms of these agreements as of December 31, 2017.

12. 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, 2017 and 2016, Wabash Valley Power's investment in ACES was approximately $0.5 million.

13. 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 6—Long-term Obligations). Amounts returned to members during 2017 and 2016 were $8.5 million and $15.0 million, respectively.

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.

14. 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 $1,220.7 million as of December 31, 2017. The amounts by year are as follows:

(In thousands)

2018	$102,558
2019	107,241
2020	108,309
2021	124,248
2022	123,573
Thereafter	654,778

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 $326.1 million and $348.5 million in 2017 and 2016, respectively.

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, 2017.

- Guarantee up to $0.1 million of MISO activities. A guarantee to MISO for $0.1 million is outstanding as of December 31, 2017.

As of December 31, 2017 and 2016, Wabash Valley Power has recorded its 50% ownership share of the liabilities of the Holland generating facility.

Environmental Matters—The Environmental Protection Agency (EPA) issued the Mercury and Air Toxics Standards (the MATS) which went into effect in 2015 with a one-year extension available to companies doing pollution control upgrades. Wabash Valley Power and the co-owners of Gibson Unit 5 invested capital in 2015 and 2016 to comply with the standards. Wabash Valley Power's share was approximately $15.5 million. No material capital expenditures are anticipated at Wabash Valley Power's other production facilities due to the MATS.

The 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. The rule, which was to become effective January 1, 2012, was stayed by the D.C. Court of Appeals on December 30, 2011. In 2014, the Supreme Court reversed the decision, which lifted the stay with all dates tolled to commence in 2015. The Clean Air Interstate Rule (CAIR) program expired on December 31, 2014 and CSAPR commenced January 1, 2015. 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). 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, is in the process of being undone and replaced with a different rule to regulate carbon. 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 rule. 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 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 associated with the asset retirement obligations for operating plants and retired plants are included in Plant and Deferred Credits (see Note 10—Asset Retirement Obligations).

15. SUBSEQUENT EVENTS

The consolidated financial statements include a review of subsequent events through March 20, 2018, the date the consolidated financial statements were available to be issued.

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