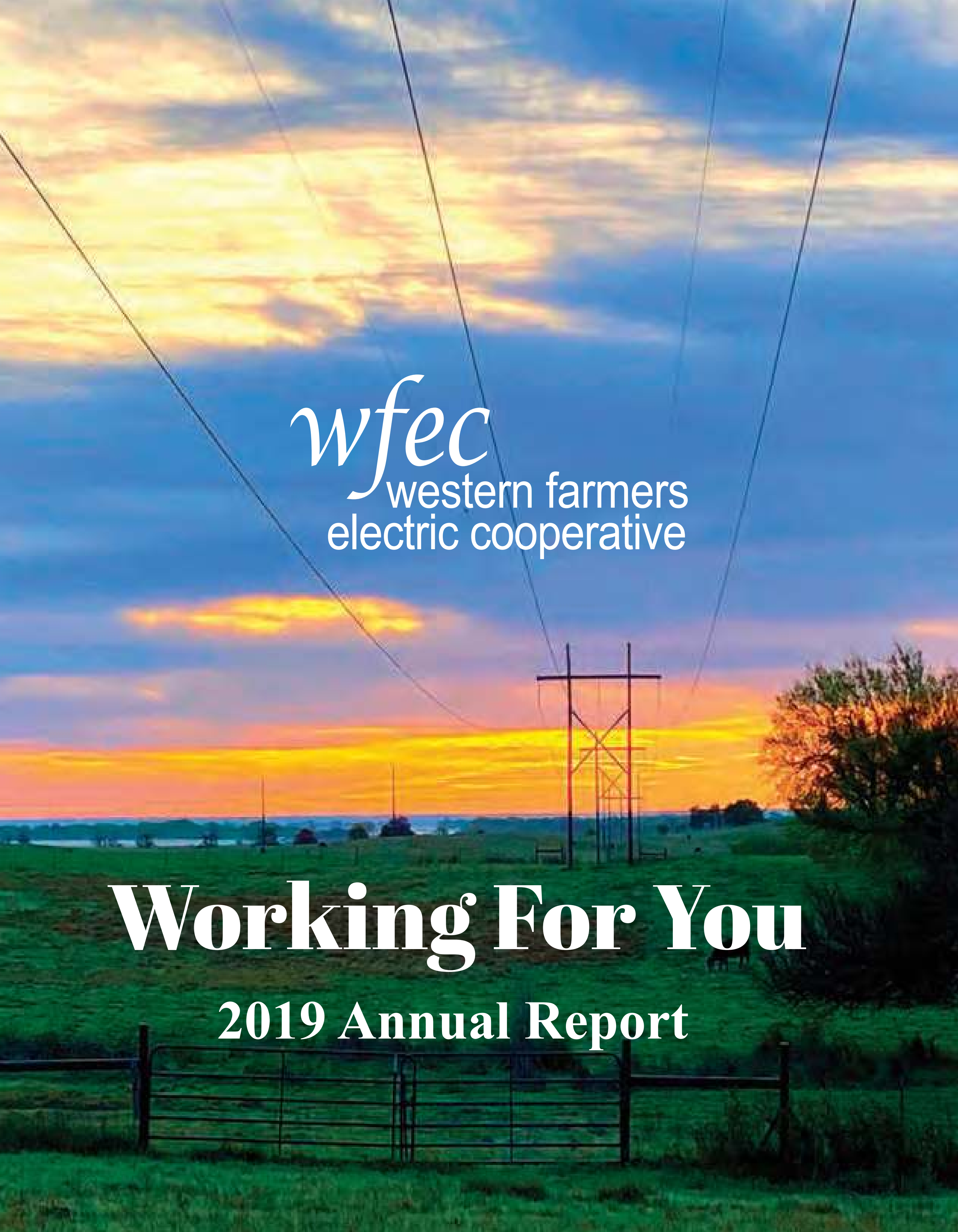


wfec
western farmers
electric cooperative

Working For You

2019 Annual Report

WFEC provides reliable service

Service Territory

WFEC's Member Cooperatives

Alfalfa Electric Cooperative	Cherokee, Okla.
Canadian Valley Electric Cooperative	Seminole, Okla.
Central Valley Electric Cooperative	Artesia, N.M.
Choctaw Electric Cooperative	Hugo, Okla.
Cimarron Electric Cooperative	Kingfisher, Okla.
CKenergy Electric Cooperative	Binger, Okla.
Cotton Electric Cooperative	Walters, Okla.
East Central Okla. Electric Cooperative	Okmulgee, Okla.
Farmers' Electric Cooperative	Clovis, N.M.
Harmon Electric Association	Hollis, Okla.
Kay Electric Cooperative	Blackwell, Okla.
Kiamichi Electric Cooperative	Wilburton, Okla.
Lea County Electric Cooperative	Lovington, N.M.
Northfork Electric Cooperative	Sayre, Okla.
Northwestern Electric Cooperative	Woodward, Okla.
Oklahoma Electric Cooperative	Norman, Okla.
Red River Valley Rural Electric Assoc.	Marietta, Okla.
Roosevelt County Electric Cooperative	Portales, N.M.
Rural Electric Cooperative	Lindsay, Okla.
Southeastern Electric Cooperative	Durant, Okla.
Southwest Rural Electric Association	Tipton, Okla.

WFEC supplies the electric needs of 17 member distribution cooperatives and Altus Air Force Base in Oklahoma, plus four cooperatives in New Mexico. Some service territories extend into Kansas and Texas.

Cover photo by
Powerline Technician
Joshua Ditmore

Steady growth & fuel diversity

Energy Sales (Members & Contract Sales)	$597 million
Total Operating Revenue	$691 million
Net Margins	$14 million
Assets	$1,458 million
Members	22
Member Consumer Meters Served	326,000 (est.)
Member Population Served	546,000 (est.)
System Peak Demand	2,004 MW
Miles of Transmission Line	3,816
Substations & Switch Stations	over 330
Numbers of Employees	407

megawatts (MW)

Fuel Mix

Generating Capacity	
Gas-Fired (Oklahoma)	892 MW
Gas-Fired (New Mexico)	43 MW
Coal-Fired (Oklahoma)	400 MW
Total Generating Capacity	1,335 MW
Power Purchases	
Gas-Fired	327 MW
Hydro	268 MW
Portfolio of GRDA assets (Grand River Dam Authority)	200 MW
New Mexico Contracts-Portfolio	197 MW
Total Purchase Power	992 MW
SPP Accredited Solar/Wind	133 MW
Total Combined Capacity	**2,460 MW**
Wind	
Oklahoma	615 MW
New Mexico	92 MW
Total Wind	**707 MW**
2020-planned wind-Oklahoma	250 MW
Solar	
New Mexico	30 MW
Oklahoma	21 MW
Total Solar	**51 MW**
2020-planned solar park - Oklahoma	2 MW
2022-planned solar-New Mexico	220 MW
2023-planned solar and 800 MWh battery storage - Okahoma	250 MW

**WFEC purchases or produces energy from various wind & solar resources. However, WFEC has not historically, nor may not in the future, retain or retire all of the renewable energy certificates associated with the energy production from these facilities.*

About WFEC

Western Farmers Electric Cooperative (WFEC) is a generation and transmission (G&T) cooperative that provides electric service to 21 member cooperatives and Altus Air Force Base. These members are located primarily in Oklahoma and New Mexico, with some service areas extending into parts of Texas and Kansas.

WFEC was organized in 1941 and is now in its 79th year of operation. WFEC continues to deliver safe, reliable, and competitively priced wholesale energy across its large service territory, while strengthening the organization, its member cooperatives, and its employees. WFEC is led by a management group with years of industry experience, and is governed by a 22-member Board of Trustees.

WFEC owns and operates a diverse power generation fleet consisting of six steam and gas turbine power generation sites, five utility-scale solar farms, and thirteen community solar farms. In addition, WFEC has power purchase agreements for wind, solar, natural gas, and hydroelectric generation. The total combined capacity for owned and contracted assets is approximately 2,500 megawatts (MW), all located in Oklahoma and New Mexico.

Anadarko Headquarters

Location: Anadarko, Okla.
First Office at New HQ Site: 1954
New Building Addition: 1968
Four-Story Addition: 1980

Employees at Headquarters & Transmission & Distribution Crews: 189

Moore Business Office

Location: Moore, Okla.
New Office Building Complete & Occupied April 2019

Employees at Moore: 53

Line Type (as built)	Miles
345 KV	152
161 KV	7
138 KV	2,288
69 KV	1,369
Total	**3,816**

WFEC's Mission Statement

To honorably serve our members with reliable, competitively priced energy and related services while providing a quality work environment and being responsive to the needs of our members and the community.

WFEC's Generation Facilities

Anadarko Plant

Location: Anadarko, Okla.
In-Service Years: 1953-1959
Capacity: (3 units) 40 MW
Fuel: Gas Steam

In-Service Year: 1977
Capacity: (3 units) 289 MW
Fuel: Gas Combined Cycle

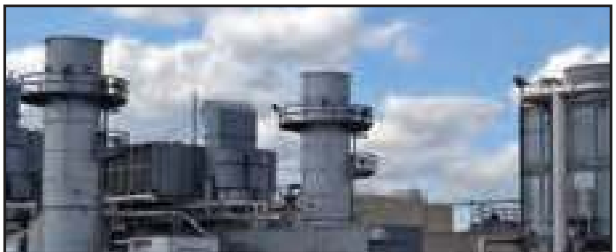
Employees at Anadarko Plant: 49

Mooreland Plant

Location: Mooreland, Okla.
In-Service Years: 1964-1975
Capacity: (3 units) 329 MW
Fuel: Gas Steam

Employees at Mooreland: 33

GenCo Plant

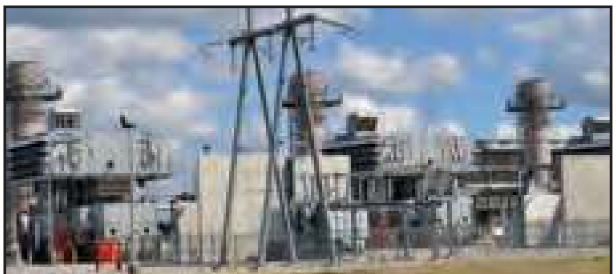


Location: Anadarko, Okla.
In-Service Year: 2001
Capacity: (2 units) 92 MW
Fuel: Gas Combustion Turbine

Hugo Plant

Location: Hugo, Okla.
In-Service Year: 1982
Capacity: 400 MW Fuel: Coal
Employees at Hugo: 83

Orme Plant



Location: Anadarko, Okla.
In-Service Year: 2009
Capacity (3 units): 142 MW
Fuel: Gas Combustion Turbine

LCEC Generation Plant

Location: Lovington, N.M.
In-Service Year: 2012
Capacity (5 units): 43 MW
Fuel: Gas

A Message from the Chief Executive Officer

2019 continued the Western Farmers Electric Cooperative (WFEC) efforts to strengthen our sound financial structure while maintaining consistent wholesale power rates to our members. During 2019, all financial targets were maintained or exceeded. Continuing to add long-term, fixed-cost, renewable assets, integrated with traditional fossil fuel assets and maximum Southwest Power Pool Integrated Market (SPP IM) interaction will help maintain stable wholesale power costs into the future.

Beginning January 2019, WFEC and three of the four New Mexico members agreed to terminate their respective Transition Agreements before the required 2026 transition date. The transition placed these three loads on wholesale power tariffs identical to Oklahoma members. This decision underscored the competitive position of WFEC's wholesale rates in comparison to the incumbent wholesale electric provider and helped illustrate that any unknown transition problems could be dealt with successfully.

A highlight in the spring of 2019 was the successful completion of a 44,000 square foot office building, centrally located in Moore, Oklahoma, that has proven to be an attractive recruiting and retention tool. By the end of 2019, this location housed approximately two-thirds of the office and administrative functions of WFEC. While the Transmission and Distribution, Anadarko Power Plant, and System Operations functions will remain at the Anadarko Headquarters, the ability to hire employees from the Oklahoma City metropolitan area contributes to WFEC's integration of its "next generation" of employees.

An electric vehicle charging infrastructure was developed, through the joint effort of WFEC, along with all member cooperatives, investor owned utilities, and municipals in rural Oklahoma and New Mexico. This initiative will help develop electric vehicle utilization in both states for the future.

WFEC and members moved from statewide efficiency, geothermal, and other load growth programs to programs tailored for individual service areas. The move from a one-size-fits-all to multiple individualized programs provides more effective member assistance.

WFEC is well positioned to provide its members' energy for the long run by implementing business strategies, embracing new technologies, and diversifying energy resources. Throughout this journey, WFEC's mission to deliver safe, reliable and competitively priced wholesale energy to members remains our focus.

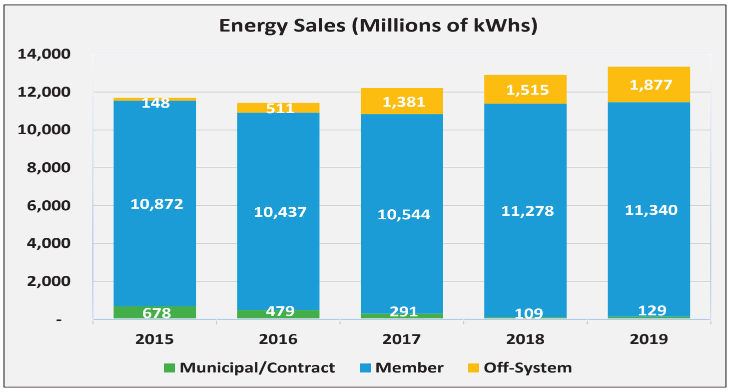
A new 44,000 square foot office building was completed in 2019 in Moore, Oklahoma and is a helpful tool in recruiting and retaining qualified employees in the Oklahoma City metropolitan area.

Wholesale Rates

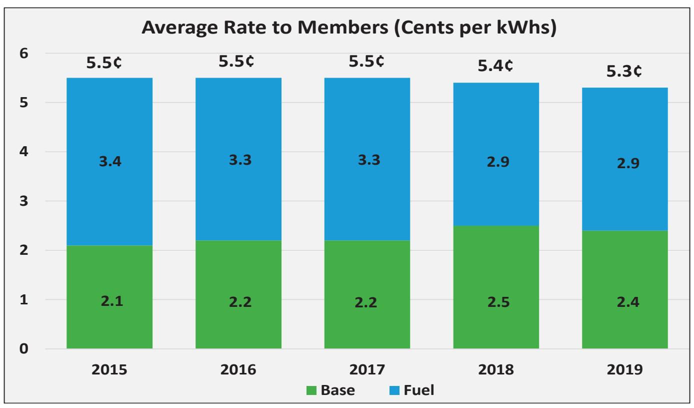
Our leaders recognize that building WFEC's financial strength must be balanced with maintaining competitive rates and reliable service for members. It's been a solid year for WFEC with positive kilowatt-hour (kWh) sales growth and stable rates. WFEC's average wholesale power cost to members was slightly less per kWh in 2019 compared to the previous four years. The average member rate dropped slightly from 5.4 cents per kWh in 2018 to 5.3 cents in 2019. Contributing factors included abundant, low-cost, renewable resources, low natural gas prices, the SPP Regional Transmission Organization, and the continued evolution of the SPP IM.

Financials

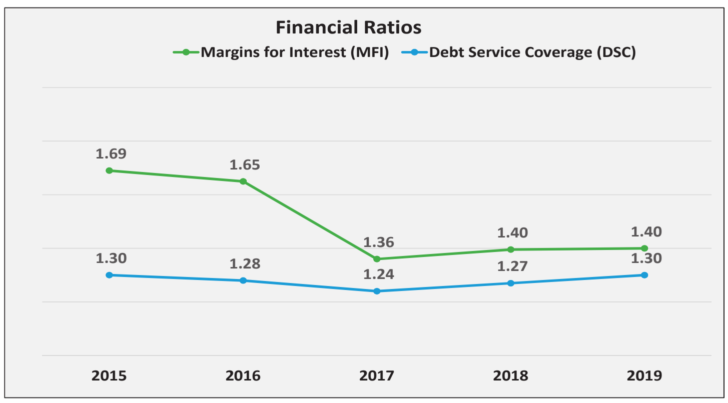
Maintaining consistent financial performance and access to competitive, short-term liquidity and long-term capital are critical to delivering our strategic plans. In 2019, WFEC executed a $382 million note with Federal Financing Bank, gaining access to low interest rate, long-term financing for transmission, distribution, and generation projects. With key financial goals achieved, the Board supported a $5.6 million 2019 revenue deferral plan to mitigate potential future rate impacts. We were also pleased that Standard and Poor's confirmed WFEC's A- rating with a stable outlook in 2019.



It's been a solid year for WFEC with positive member kWh sales growth, off-system sales and stable rates.



For the last five years members have enjoyed a declining average cost per kWh due to: participation in the Southwest Power Pool (SPP) Integrated Marketplace and Regional Transmission Organization; relatively stable natural gas costs; and abundent, low-cost, renewable resources.



Performance of employees, steady tracking of long-term financial goals, along with the addition of long-term fixed-price renewable assets have supported achievement of Board-targeted strong financial ratios.

Renewable Energy*

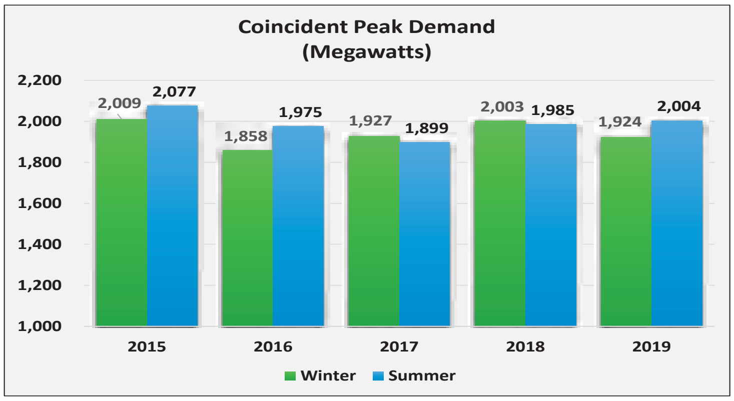
In order to keep wholesale power costs low and to lessen future environmental risk, WFEC executed an agreement for a new hybrid resource. A solar and storage facility named Skeleton Creek Energy Center will be located with the Skeleton Creek wind facility that was placed under contract in 2018. WFEC contracted with Skeleton Creek Energy Center, LLC for a 250 MW solar facility and a 200 MW four-hour (800 MWh) battery storage facility which will be co-located at the same point of interconnection with the 250 MW Skeleton Creek wind facility. The wind facility's planned commercial operation date is in late 2020 and the solar and storage facility's commercial operation date is planned for December 2023.

Solar power generation will be a greater portion of WFEC's overall fuel mix in the next few years. WFEC owns or contracts almost 51 MW of solar generation which includes 18 MW from five utility-scale solar farms in Oklahoma; 30 MW from two utility-scale sites in New Mexico; and almost 3 MW from 13 community solar locations. Under contract is the 220 MW Tip Top solar facility with commercial operation planned for 2022 and the 250 MW Skeleton Creek solar facility planned for 2023.

These projects will help further diversify WFEC's generation portfolio to include 523 MW of solar generation, 957 MW of wind generation, and 268 MW of hydroelectric generation. When completed, WFEC projects that over 40% of the energy it sells to the Southwest Power Pool will be generated with renewables.

**WFEC purchases or produces energy from various wind & solar resources. However, WFEC has not historically, nor may not in the future, retain or retire all of the renewable energy certificates associated with the energy production from these facilities.*

WFEC owns or contracts almost 51 MW of solar generation from five utility-scale sites in Oklahoma, two in New Mexico, and 13 community solar sites. Pictured above is the 4 MW Tuttle Solar Farm.



WFEC set a summer coincident peak demand in August 2019. Year-to-year comparison reflects a plateauing of demand with primary contributors of slowing oil and gas production in certain areas and improvements in efficiency for consumers.

Once contracted projects are completed, WFEC projects that over 40% of the energy it sells to the Southwest Power Pool will be generated by wind, solar and hydroelectric generation.

Power Delivery and Technology

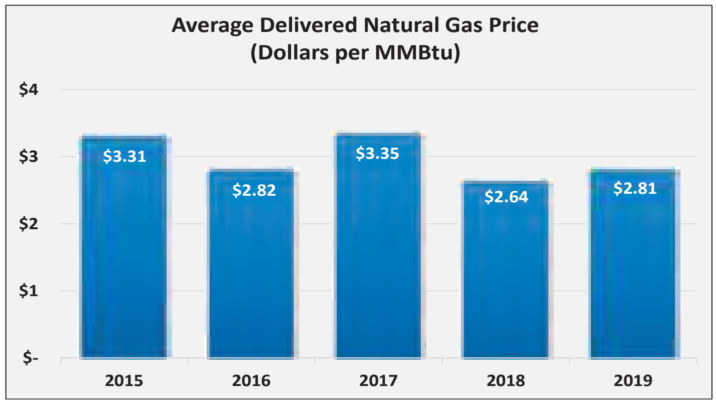
In 2019, Power Delivery continued to pursue a high level of reliability for our members and a safe working environment for our employees. In addition to responding to storm outages, personnel also performed preventive maintenance on facilities, maintained the transmission rights-of-way, and increased substation transformer capacity, when necessary, to support member load growth. Power Delivery also completed Federal Communications Commission (FCC) licensing of the 700 MHz bandwidth purchase. This licensed bandwidth will provide a pathway for WFEC to migrate from an antiquated radio platform for communication to facilities, to a state-of-the-art, interference-free environment.

In addition to responding quickly to storm outages, WFEC Transmission & Distribution crews routinely perform preventative maintenance on facilities and maintain rights-of-way to support member growth.

Marketing and Member Services

This was a pivotal year in the ongoing Electric Vehicle Marketing Program. On the education front, our *Plug-in-to-Win* Promotion was highlighted at participating cooperatives' annual meetings. This was an opportunity to talk to hundreds of consumers about the benefits of Electric Vehicles (EV) and to explore if driving an EV might meet their individual needs. The promotion concluded with one lucky participant winning $5,000.

In November, WFEC and our strategic partner, Francis Energy, hosted a statewide press conference introducing the completion of one of the most robust statewide EV charging networks in the nation. The level 3 DC fast charging network offers charging infrastructure every 50 miles across Oklahoma.

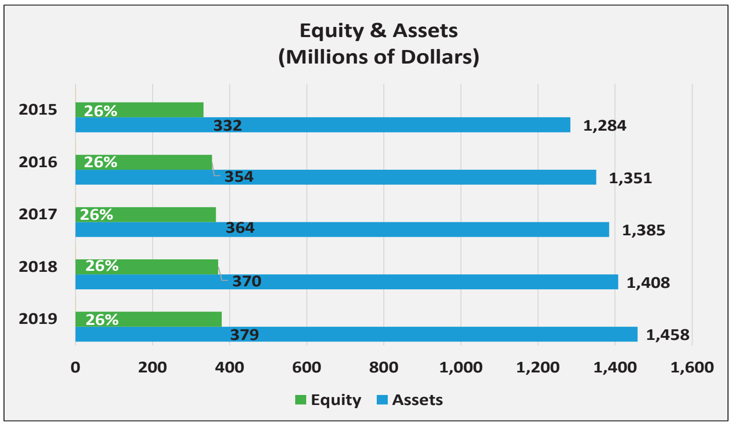


Delivered natural gas prices are one of the primary determinants of the total average rate to members. The last five-year average price has been a stabilizing factor for wholesale rates.

WFEC hosted a Plug-in-to-Win promotion at participating cooperatives' annual meetings in 2019 to educate members about the benefits of electric vehicles. Carma Morris from WFEC's Canadian Valley service territory won the $5,000 grand prize. Pictured l to r: Gary Crain, WFEC Board Member, Bob Hood, Canadian Valley Manager, Don and Carma Morris and Jarrod VanZant, Canadian Valley Manager of Member Relations.

In 2019, WFEC added more EVs to its pool car fleet to continue efforts to educate ourselves, our members, and the public about EV performance as well as document the real savings potential.

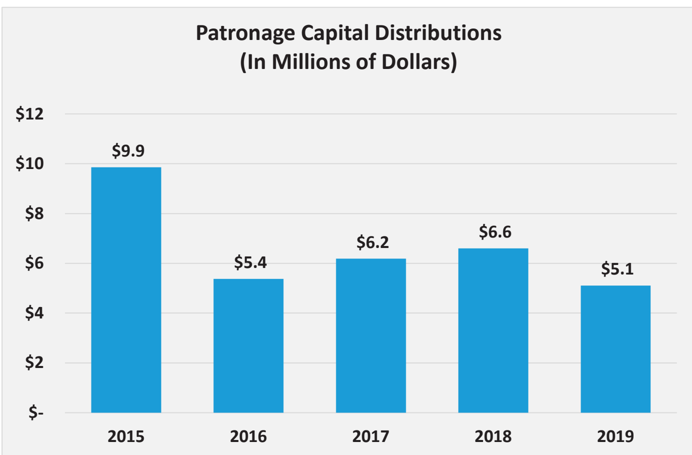
WFEC continues to add to the EV pool car fleet and is working to educate employees and members of the savings potential.



WFEC has maintained its equity percent over the last five-year period while continuing to grow its balance sheet with investment in transmission, distribution, and generation projects.

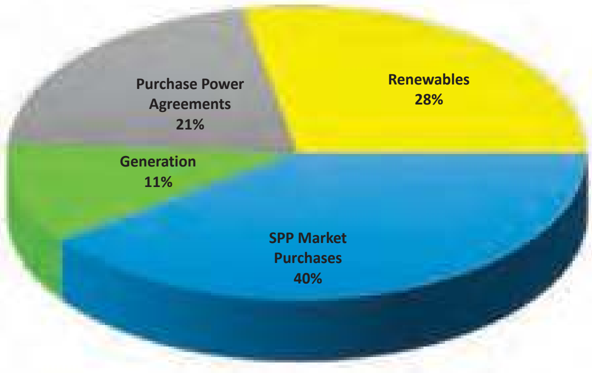
With WFEC's evolving support to the EV market and continued investment in renewable projects, our vision for the future is progressive and sustainable. To support our mission, WFEC is *Working for You*, our members, to deliver safe, reliable, and competitively priced wholesale energy to the communities in which we live.

WFEC crews work to maintain an excellent member service and reliability standard.



Stable rates and achievement of financial goals have allowed the WFEC Board of Trustees the pleasure of returning cash to members. Patronage capital distributions reflect a return of member investment in the G&T.

WFEC *Resources Utilized to Support 2019 Energy Sales*



Renewables*

Wind	20%
Solar	1%
Hydro	7%
	28%

Generation

Coal	4%
Natural Gas	7%
	11%

Power Purchase Agreements**

Grand River Dam Authority
Oneta Power Plant
Southwestern Public Service

Southwest Power Pool Market Purchases**

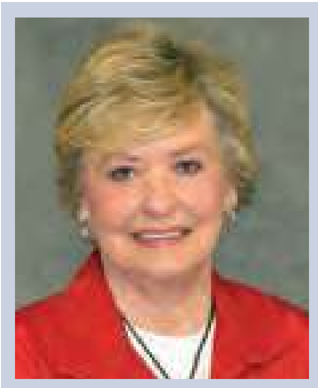
**Includes a blend of resources.

**WFEC purchases or produces energy from various wind & solar resources. However, WFEC has not historically, nor may not in the future, retain or retire all of the renewable energy certificates associated with the energy production from these facilities.*

WFEC is committed to providing economical, reliable, and environmentally sustainable electricity to our members. To be environmentally sustainable WFEC has included hydro, wind, and solar energy in our portfolio. Additionally, WFEC utilizes Geographic Information System (GIS) programs to help determine where line markers/bird diverters are warranted to reduce the likelihood of a whooping crane (an endangered species) collision with a power line and what level of oil spill containment may be needed at substations. These GIS programs allow WFEC staff to quickly assess a project to allow for more consistent and economical project planning while protecting sensitive natural resources.

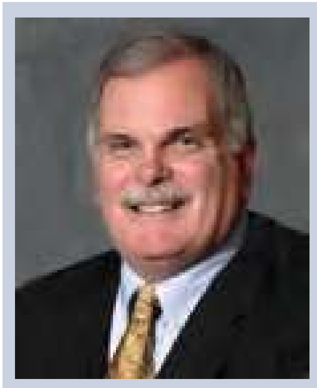
WFEC Board of Trustees

Jean Pence
Harmon Electric Association



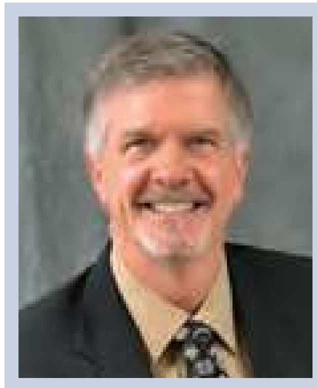
Trustee since: April 2015

David Ray
Kiamichi Electric Cooperative



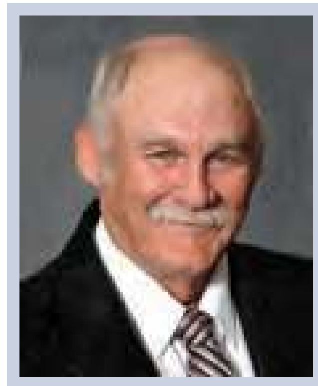
Trustee since: April 2007

John Graham
Lea County Electric Cooperative (N.M.)



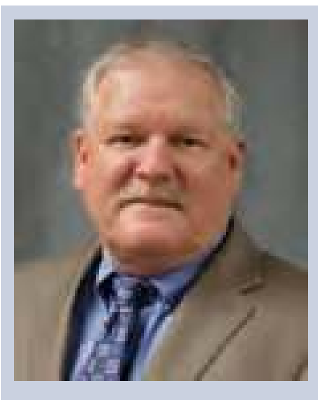
Trustee since: April 2016

Ray O. Smith
Northwestern Electric Cooperative



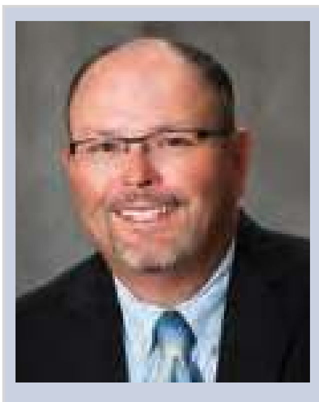
Trustee since: April 1991

Rusty Grissom
Oklahoma Electric Cooperative



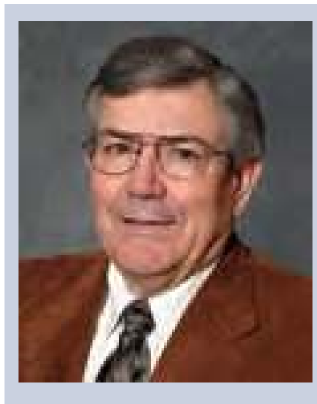
Trustee since: April 2005

Antonio Sanchez Jr.
Roosevelt Co. Electric Cooperative (N.M.)



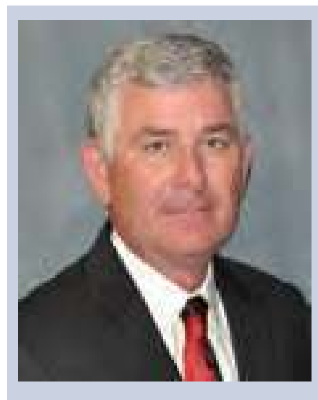
Trustee since: Oct. 2017

Gary Jones
Rural Electric Cooperative



Trustee since: Dec. 2002

Jeff Willingham
Southeastern Electric Cooperative



Trustee since: April 2015

Don Ellis
Southwest Rural Electric Association

Trustee since: March 2014

WFEC is governed by a 22-member Board of Trustees, including a representative from each member cooperative and Altus Air Force Base. It is the objective of the Board to establish and define the duties of the Board to ensure effective management, administration and regulation of the business and affairs of WFEC.

WFEC Senior Management Team

Gary Roulet
Chief Executive Officer
(since 2003)

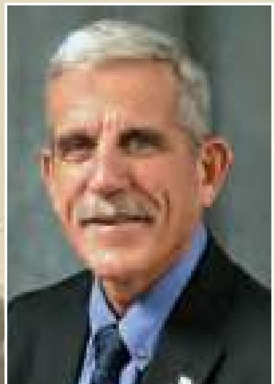
Began career with WFEC in 1974.

Ron Cunningham
Exec. Vice Pres.,
Power Del. & Techn.

Began career with WFEC in 1974.

Jane Lafferty
Vice President &
Chief Financial Officer

Began career with WFEC in 1984.

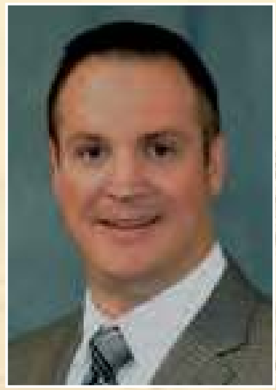


Gary Gilleland
Vice President,
Generation

Began career with WFEC in 2007.

Mark Faulkenberry
Vice President,
Mktg & Member Relations

Began career with WFEC in 2000.



David Sonntag
Vice President,
Special Projects

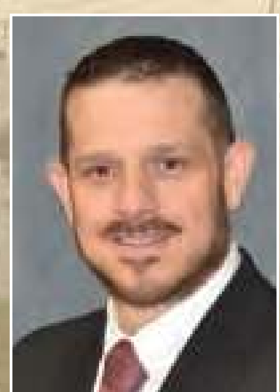
Began career with WFEC in 2000.

Matt Caves
Senior Manager,
Legal & Regulatory Compliance

Began career with WFEC in 2014.

Rodney Palesano
Senior Manager,
Human Resources

Began career with WFEC in 1995.



Mike Meason
Senior Manager,
Information & Security

Began career with WFEC in 2009.

Renewables

Wind Energy*

Blue Canyon Wind Farm - 74 MW
Location: Near Lawton, Okla.
Began commercial operation in December 2003

Buffalo Bear Wind Farm - 19 MW
Location: Near Fort Supply, Okla.
Began commercial operation in December 2008

Red Hills Wind Farm - 123 MW
Location: Near Elk City, Okla.
Began commercial operation in June 2009

Rocky Ridge Wind Project - 149 MW
Location: Near Rocky, Okla.
Began commercial operation in June 2012

Wildcat Wind Farm - 27 MW
Location: Near Lovington, N.M.
Began commercial operation in July 2012

Brahms BEP Wind I & II - 10 MW each
Location: Near Grady, NM
Began commercial operation in February 2014

Anderson Wind Project I & II - 5 & 10 MW
Location: Chaves County, N.M.
Began commercial operation in December 2014

Balko Wind Project - 100 MW
Location: Near Balko, Okla.
Began commercial operation in August 2015

Grant Wind Project - 50 MW
Location: Grant County, Okla.
Began commercial operation in April 2016

Sterling Wind Farm - 30 MW
Location: Near Tatum, N.M.
Began commercial operation in July 2017

Minco Wind IV Wind Farm – 100 MW
Location: Canadian & Caddo counties (Okla.)
Began commercial operation in November 2018

Oklahoma	**615 MW**
New Mexico	**92 MW**
Total Wind Energy (2019)	**707 MW**

Future Wind Projects:

Skeleton Creek Wind – 250 MW
Location: Alfalfa, Major & Garfield counties (Okla.)
Commercial operation by end of 2020
(Renewable Energy Purchase Agreement signed in 2018)

Total Wind Energy (2020) 957 MW

Solar Generation*

Oklahoma - 21 MW

Utility-Scale Solar Farms - 18 MW total

Cyril (5 MW) Tuttle (4 MW)
Pine Ridge - Hinton - Marietta (3 MW each)

Community Solar - 3 MW total

13 sites range from 0.125 MW to 0.25 MW
11 WFEC member cooperatives participate

WFEC, under a lease agreement, maintains the utility-scale and the community solar sites in Oklahoma.

**WFEC purchases or produces energy from various wind & solar resources. However, WFEC has not historically, nor may not in the future, retain or retire all of the renewable energy certificates associated with the energy production from these facilities.*

WFEC purchases all output from each of these sites under long-term REPA's.

New Mexico - 30 MW

Utility-Scale Solar Farms - 30 MW total

Caprock Solar Facility (25 MW) - Tucumcari, N.M.
Middle Daisy Solar Facility (5 MW) - Lovington, N.M.

Total Solar Generation (2019) 51 MW

Future Solar Projects:

Norman Solar Park - 2 MW
Commercial operation planned by end of 2020.

Tip Top Solar Energy Center – 220 MW
Location: Southeast New Mexico
Commercial operation planned by end of 2022
(Purchase Power Agreement signed in 2018)

Skeleton Creek Solar – 250 MW w/ 800 MWh battery storage.
Location: Garfield County (Okla.)
Commercial operation by end of 2023
(Renewable Energy Purchase Agreement signed in 2019)

Total Solar Generation (2023) 523 MW

KPMG LLP
210 Park Avenue, Suite 2650
Oklahoma City, OK 73102-5683

Independent Auditors' Report

The Board of Trustees
Western Farmers Electric Cooperative:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Western Farmers Electric Cooperative and its subsidiaries (WFEC), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 auditors' 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 entity'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 of the effectiveness of the entity'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 WFEC and its subsidiaries 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 U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2019 WFEC and its subsidiaries adopted new accounting guidance, ASU 2014-09, *Revenue from Contracts with Customers*, and ASU 2016-18, *Statement of Cash Flows*. Our opinion is not modified with respect to this matter.

KPMG LLP

Oklahoma City, Oklahoma
March 9, 2020

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands)

Assets		2019	2018
Electric utility plant, at cost:			
In-service	$	1,841,437	1,784,326
Construction work-in-progress		64,548	60,258
Total electric utility plant		1,905,985	1,844,584
Less accumulated depreciation and amortization		779,065	750,566
Net electric utility plant		1,126,920	1,094,018
Investments in associated organizations and other investments, at cost		19,581	18,549
Current assets:			
Cash and cash equivalents		13,377	14,106
Restricted cash		46,402	44,972
Accounts receivable from energy sales		56,149	53,665
Other accounts receivable		5,218	9,368
Inventories, at average cost:			
Coal, natural gas, and oil		16,215	11,951
Material and supplies		67,131	58,893
Other		2,716	2,320
Total current assets		207,208	195,275
Noncurrent restricted cash		47,692	44,721
Deferred debits		56,923	55,548
Total assets	$	1,458,324	1,408,111
Members' Equity and Liabilities			
Capitalization:			
Patronage capital	$	312,533	303,497
Contributed capital		54,051	53,911
Other capital		12,781	12,781
Long-term debt		864,955	793,444
Total capitalization		1,244,320	1,163,633
Current liabilities:			
Current portion of long-term debt		42,560	94,808
Accounts payable and accrued liabilities		123,846	82,380
Total current liabilities		166,406	177,188
Other liabilities		47,598	67,290
Commitments and contingencies (note 3, 13, and 14)		—	—
Total members' equity and liabilities	$	1,458,324	1,408,111

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Operations

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Operating revenues:			
Power sales to members, cities, and other	$	597,402	623,306
Other power sales and operating revenues		94,356	92,640
Total operating revenues		691,758	715,946
Operating expenses:			
Operations:			
Production		70,306	107,745
Purchased and interchanged power		394,083	382,157
Transmission		86,488	83,115
Distribution		6,638	6,966
General and administrative		14,080	14,821
Maintenance		19,841	24,103
Depreciation and amortization		55,770	54,519
Total operating expenses		647,206	673,426
Operating margin before interest		44,552	42,520
Interest expense, less amounts capitalized during construction of approximately $1,763 and $1,190 in 2019 and 2018, respectively		(38,313)	(37,315)
Interest income		5,318	5,036
Operating margin		11,557	10,241
Other nonoperating, net		148	332
Patronage capital assigned by associated organizations		2,689	3,765
Net margin	$	14,394	14,338

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Comprehensive Income

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Net Margin	$	14,394	14,338
Other comprehensive income, net of tax:			
Pension and other postretirement benefit plans:			
Net actuarial loss		(215)	(44)
Less amortization of prior service cost included in net periodic pension cost		(36)	(46)
Pension and other postretirement benefit plans		(251)	(90)
Other comprehensive loss		(251)	(90)
Total comprehensive income	$	14,143	14,248

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Changes in Members' Equity

Years ended December 31, 2019 and 2018

(In thousands)

	Memberships	Patronage capital	Contributed capital	Other capital	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2017	$ 3	294,966	55,643	12,781	879	364,272
Net margin	—	14,338	—	—	—	14,338
Patronage capital retired	—	(6,599)	—	—	—	(6,599)
Contributed (refunded) capital, net	—	—	(1,732)	—	—	(1,732)
Net other comprehensive loss	—	—	—	—	(90)	(90)
Balance, December 31, 2018	3	302,705	53,911	12,781	789	370,189
Net margin	—	14,394	—	—	—	14,394
Patronage capital retired	—	(5,107)	—	—	—	(5,107)
Contributed (refunded) capital, net	—	—	140	—	—	140
Net other comprehensive loss	—	—	—	—	(251)	(251)
Balance, December 31, 2019	$ 3	311,992	54,051	12,781	538	379,365

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Net margin	$	14,394	14,338
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation		52,092	50,873
Other depreciation and amortization included in operating expenses		6,178	4,110
Amortization of regulatory asset expense		3,035	3,035
Accretion of asset retirement obligation		643	611
Changes in assets and liabilities:			
Accounts receivable from energy sales		(2,484)	(1,434)
Other accounts receivable		4,150	273
Coal, natural gas, and oil inventory		(4,264)	(125)
Materials and supplies inventory		(8,238)	(4,263)
Other current assets		(396)	(192)
Deferred debits and other (includes SPP attachment Z2 credits)		350	2,149
Accounts payable and accrued liabilities (includes SPP attachment Z2 credits)		6,816	(1,987)
Other assets and liabilities (includes SPP attachment Z2 credits)		2,710	(9,547)
Net cash provided by operating activities		74,986	57,841
Cash flows from investing activities:			
Net extension and replacement of electric utility plant		(84,880)	(85,808)
Proceeds from receivable from third party		—	13,813
Net cash used in investing activities		(84,880)	(71,995)
Cash flows from financing activities:			
Advances of long-term debt		559,389	661,027
Payments on long-term debt		(540,126)	(635,073)
Contributed capital		(590)	1,920
Patronage capital retired		(5,107)	(6,599)
Net cash provided by financing activities		13,566	21,275
Net increase in cash, cash equivalents, and restricted cash		3,672	7,121
Cash, cash equivalents, and restricted cash at beginning of year		103,799	96,678
Cash, cash equivalents, and restricted cash at end of year	$	107,471	103,799
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	$	38,364	41,271

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

Western Farmers Electric Cooperative (WFEC) is a generation and transmission cooperative headquartered in Anadarko, Oklahoma. WFEC owns and operates six generating plants, fueled by coal and gas, located in Anadarko, Mooreland and Hugo, Oklahoma, and Lovington, New Mexico. WFEC also owns and maintains approximately 3,800 miles of transmission line as well as substations and switch stations primarily located in Oklahoma. WFEC has a combined capacity of approximately 2,440 megawatts (MW), including hydropower allocation and other contract power purchases. Member-owners consist of 21 distribution cooperatives, 17 in Oklahoma and four in New Mexico, and a United States Air Force base. Substantially all revenue is related to Oklahoma and New Mexico operations. See note 13 for further information related to the addition of and sales to the New Mexico cooperatives.

(b) Basis of Presentation

WFEC maintains its accounting records in accordance with the Uniform System of Accounts of the United States Department of Agriculture Rural Development Utilities Programs (RDUP), formerly known as the Rural Utilities Service, which conforms with U.S. generally accepted accounting principles in all material respects. These consolidated financial statements reflect the transactions of WFEC and its wholly owned subsidiaries, WFEC Railroad Company and WFEC EnergyCo, LLC (EnergyCo). All significant intercompany balances and transactions have been eliminated upon consolidation. Certain amounts included in the financial statements related to 2018 have been reclassified to conform to the 2019 presentation. The more significant accounting policies of WFEC are described below.

(c) Use of Estimates

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

(d) Electric Utility Plant

Electric utility plant is stated at original cost. The capitalized cost of additions to electric utility plant includes the cost of material, direct labor, contract services, and various other indirect charges, such as engineering, supervision and overhead costs, and interest on funds used during construction. Retirements or other dispositions of electric utility plant are based on an average unit cost that is deducted from plant and, together with removal costs less salvage, is charged to accumulated depreciation. The cost of repairs and minor renewals is charged to maintenance expense in the period incurred.

(Continued)

Provision for depreciation of electric utility plant is computed on the straight-line method at rates based on estimated service lives and salvage values of the class of property. These rates are applied on a composite class basis. Annual depreciation rates used in 2019 and 2018 are as follows:

Production plant	3.00–3.10%
Transmission plant	2.75–10.00%
Distribution plant	2.88–10.00%
General plant	3.00–33.33%

Depreciation and amortization for the year ended December 31, 2019 was $60,016,000, of which $52,735,000 was charged to depreciation expense, $2,455,000 was included in fuel and other operating expenses, $1,791,000 was included in employee pension and benefits, and $3,035,000 was charged to amortization of regulatory assets. Depreciation and amortization for the year ended December 31, 2018 was $58,628,000, of which $51,483,000 was charged to depreciation expense, $2,319,000 was included in fuel and other operating expenses, $1,791,000 was included in employee pension and benefits, and $3,035,000 was charged to amortization of regulatory assets.

WFEC periodically reviews the carrying values of its utility plant assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or group of assets may not be recoverable through the future net cash flows expected to be generated by the asset or group of assets. If such assets are considered impaired, the impairment is recognized by the extent that carrying value exceeds fair value. There were no impairment charges for 2019 and 2018.

(e) Capitalization of Interest

Interest costs are capitalized as part of the cost of various capital assets under construction. WFEC uses the weighted average rate of interest associated with long-term borrowings. Interest capitalized during 2019 and 2018 totaled $1,763,000 and $1,190,000, respectively.

(f) Restricted Cash

Restricted cash consists of the following:

- WFEC has a Contingent Cash Reserve (CCR) that is restricted by WFEC Board Policy to be utilized based upon certain significant events or other approved uses as determined by the Board. The CCR had a balance of $53,249,000 and $50,732,000 as of December 31, 2019 and 2018, respectively.
- WFEC has a Cushion of Credit (Unapplied Advance Payment) account with the RDUP. As an RDUP borrower, WFEC may participate in the RDUP Cushion of Credit Program, which allows voluntary prepayment of debt. These advance payments are held on behalf of WFEC and earn interest at 5% per annum. The prepaid account balance and earned interest may only be used for debt service on loans made or guaranteed under the Rural Electrification Act. As of December 31, 2019 and 2018, the Cushion of Credit account had a balance of $92,159,000, of which $53,249,000 represents CCR funds and $87,758,000, of which $50,732,000 represents CCR funds, respectively. The current portion of restricted cash is what will be available to satisfy the debt service in the next fiscal year.

- The Cushion of Credit Program with RDUP was amended via the Agriculture Improvement Act of 2019 (Act). Under the provision of the Act as of December 20, 2019, no new deposits will be accepted. The current fixed interest rate of 5% per annum earned by the account holder will continue to be earned until the end of the federal government's fiscal year 2020. In fiscal year 2021 the rate will reduce to 4% per annum. Thereafter the rate will earn the applicable 1-year Treasury rate. The 1-year Treasury rate was 1.59% as of December 31, 2019. The Act allows for borrowers to prepay associated RDUP debt through fiscal year 2020 without penalty.
- During 2019, the revenue deferral plan related to the settlement for Attachment Z2 of the Southwest Power Pool (SPP) Open Access Transmission Tariff (OATT) was terminated due to an order of remand issued by the Federal Energy Regulatory Commission (FERC). The approval by RDUP to terminate the plan removed the requirement to segregate cash equal to the balance of the deferred revenue plan, which as of December 31, 2019 and 2018 was approximately $0 and $21,803,000, respectively (see note 5).
- A 2019 revenue deferral plan implemented to mitigate potential rate impacts of future capacity expansion projects, potential environmental regulation, and other industry activities was approved by RDUP. WFEC deferred $5,600,000 to be recognized no later than 2029. At December 31, 2019 a portion of the Cushion of Credit funds satisfied RDUP's requirement to segregate cash in an amount equal to the balance of WFEC's revenue deferral plan, which as of December 31, 2019 was approximately $5,600,000 (see note 5).

(g) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash on hand and investments purchased with original maturities of three months or less.

(h) Investments in Associated Organizations

Investments in associated organizations are stated at cost plus WFEC's share of patronage capital credits allocated, reduced by distributions received (see note 4).

(i) Inventories

Inventories of coal, natural gas, oil, and materials and supplies of WFEC are valued at average cost. These inventories are consumed by WFEC's operations or utilized as additions to electric utility plant and are not held for resale.

(j) Emission Allowances and Renewable Energy Credits

As a result of the operation of its generating resources and renewable energy purchase agreements, WFEC generates or is allocated SO2 (sulfur dioxide) and NOx (nitrogen oxide) allowances and renewable energy credits (RECs) under various environmental regulations. The SO2 allowances and RECs have no cost basis and therefore do not result in an expense when used nor are they recorded on the balance sheet. NOx allowances are also purchased and the cost is assigned to inventory. As NOx allowances are used or no longer have value, inventory is expensed on an average unit cost basis. Proceeds from the sales of allowances and RECs in excess of average unit cost and fees are recorded as a gain.

(Continued)

(k) Electric Rates

The Board of Trustees of WFEC has full authority to establish the electric rates charged to members, subject to approval by RDUP.

WFEC bills its members fuel costs as a component of electric rates. The fuel billing rate is designed to accumulate and maintain an over recovered fuel account balance. An over recovery of approximately $11,486,000 and $9,400,000 at December 31, 2019 and 2018, respectively, was recorded in accounts payable and accrued liabilities.

(l) Regulatory Assets and Liabilities

WFEC defers certain expenses that will be recovered through WFEC's future rates (see note 5) in accordance with accounting principles generally accepted in the United States of America applicable to rate-regulated enterprises. Regulatory assets are charged as an expense, if and when future recovery in rates of that asset is no longer probable. WFEC also defers certain revenue and recognizes unearned revenue over future periods for rate making purposes.

(m) Revenue Recognition

(i) General

WFEC recognizes revenue from electric sales when power is delivered to customers. WFEC recognizes revenue from demand availability ratably over the reporting period as it is a standby ready performance obligation earned with the passage of time. The performance obligation to deliver electricity is generally created and satisfied simultaneously, and the provisions of the Board-approved electric rate determine the charges WFEC may bill the customer, payment due date and other pertinent rights and obligations of both parties. WFEC reads its customers' meters and sends bills to its members at the end of each month. As a result, there is no material amount of customers' electricity consumption that has not been billed at the end of each month.

(ii) Integrated Marketplace and Transmission

Formed as a generation and transmission (G&T) electric cooperative, WFEC owns and operates G&T facilities and is a member of the SPP Regional Transmission Organization (RTO). The SPP has implemented FERC-approved regional day ahead and real-time markets for energy and operating services, as well as associated transmission congestion rights. Collectively the three markets operate together under the global name, SPP Integrated Marketplace (IM). WFEC represents owned and contracted generation assets and customer load in the SPP IM for the sole benefit of its customers. WFEC does not participate in the SPP IM for speculative trading purposes. WFEC records the SPP IM transactions per FERC Order 668, which requires that purchases and sales be recorded on a net hourly basis for each settlement period of the SPP IM. Purchases and sales are based on the fixed transaction price determined by the market at the time of the purchase or sale and the megawatt hour (MWh) quantity purchased or sold. These results are reported as Power sales to members, cities, and other in the accompanying consolidated financial statements. WFEC revenues, expenses, assets and liabilities may be adversely affected by changes in the organization, operation and regulation by the FERC or the SPP.

(Continued)

As a member of the SPP RTO, WFEC has transferred operational authority, but not ownership, of WFEC's transmission facilities to the SPP. WFEC's transmission revenues are generated by the use of WFEC's transmission network by the SPP, which operates the network on behalf of transmission owners. WFEC recognizes revenue on the sale of transmission service to customers over time as the service is provided in the amount WFEC has a right to invoice. Transmission service to the SPP is billed monthly based on a fixed transaction price determined by WFEC's FERC-approved formula transmission rates along with other SPP specific charges and the MW quantity reserved.

The following table disaggregates the Company's revenues from contracts by classification.

		2019
		(In thousands)
Members	$	591,664
Nonmember		6,686
System sales revenues		598,350
Integrated marketplace		41,821
Transmission		49,169
Revenue from contracts with customers		689,340
Other		2,418
Total revenues	$	691,758

(n) Derivative Instruments and Hedging Activities

WFEC's activities expose it to a variety of market risks, including interest rates and commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on its operating results. These policies and strategies include the use of derivative instruments for hedging purposes. If hedge treatment is obtained, unrealized gains or losses resulting from these instruments are deferred as a component of accumulated other comprehensive income (loss) until the corresponding item being hedged is settled, at which time the gain or loss is recognized (see note 12).

(o) Related Parties

The members of WFEC purchase power from WFEC. The terms of transactions are based upon formal long-term contracts approved by WFEC's Board of Trustees and are settled monthly, generally requiring the members to purchase 100% of the members' purchased power requirements from WFEC. The contracts allow the Board of Trustees to establish base energy rates that allow recovery of cost of utility plant, fuel, and other operating costs incurred by WFEC. The only exception relates to four New Mexico members with Transition Agreements providing that during the transition period, WFEC shall maintain a separate cost of service based rate for the New Mexico members. Immediate and short-term power requirements for these four members are provided from a combination of existing contracts with Southwestern Public Service Company (SPS), at prescribed contract quantities and

(Continued)

periods, and WFEC, with WFEC's obligation to provide power and energy increasing as the quantities of power and energy from the SPS contracts decrease over time. WFEC's obligation increased from 91 MW to the New Mexico members in 2016 to 172 MW on June 1, 2017. All New Mexico member third-party supplier contracts and generation capacity were assigned to WFEC. No collateral is pledged to WFEC from its members to collateralize the outstanding accounts receivable.

Effective December 31, 2018, WFEC and three of the four New Mexico members mutually agreed to terminate their respective Transition Agreements early and beginning January 2019, these members are billed the Member Rate consistent with the Wholesale Power Contract (see note 13).

At December 31, 2019, WFEC has Wholesale Power Contracts (WPC) with its 21 distribution cooperative members through the year 2065. WFEC's power sales to members for 2019 and 2018 was approximately 92% of total sales.

(p) Concentration of Credit Risk

Concentration of credit risk exists with respect to trade accounts receivable of which approximately 99% of accounts receivable from energy sales at December 31, 2019 and 2018 is from power sales to WFEC's members. The credit risk for accounts receivable from nonmember sales is managed through monitoring procedures.

(q) Comprehensive Income

Comprehensive income consists of net margin, changes in the fair value of derivatives that are designated as hedges and changes in the net actuarial gains (losses) and amortization of prior service costs on the defined benefit retirement plan.

(r) Fair Value Measurements

WFEC utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. WFEC determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(Continued)

(s) Recently Adopted Accounting Pronouncements

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. The effective date for ASU 2014-09 was delayed through the issuance of ASU 2015-14 to annual and interim periods beginning in 2019, with early adoption permitted in 2018. WFEC adopted the standard in 2019 using the modified retrospective transition method. WFEC determined it was not necessary to change the timing or amounts of revenue recognized based on the adoption of Topic 606.

The FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230). The amendment requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. WFEC adopted the standard in 2019, and the change is reflected for all periods presented.

(t) Recently Issued Accounting Pronouncements

The FASB issued ASU 2016-02, *Leases* (Topic 842). Its objective is to increase transparency and comparability among organizations. This ASU provides guidance requiring lessees to recognize most leases on their balance sheet. Lessor accounting does not significantly change, except for some changes made to align with new revenue recognition requirements. This ASU is effective for WFEC in 2021. Early adoption is permitted. WFEC is continuing to evaluate the impact this ASU will have on its consolidated financial statements and related disclosures and does not plan on early adopting.

The FASB issued ASU 2018-01, *Leases* (Topic 842). It provides practical expedients when implementing ASC 842 *Leases*, which would allow entities to continue their current accounting treatment for existing land easements. Upon adoption of ASC 842, only new land easements entered into after that date would be evaluated under ASC 842. This ASC is effective for WFEC in 2021. Early adoption is permitted. WFEC is continuing to evaluate the impact this ASU will have on its consolidated financial statements and related disclosures and does not plan on early adopting.

(Continued)

(2) Electric Utility Plant

Major classes of electric utility plant as of December 31 are as follows:

		2019	2018
		(In thousands)	
Production plant	$	994,900	986,008
Transmission plant		476,014	467,799
Distribution plant		213,980	210,391
General plant		114,472	102,520
Unclassified plant		42,071	17,608
Electric utility plant-in-service		1,841,437	1,784,326
Construction work-in-progress		64,548	60,258
Total electric utility plant	$	1,905,985	1,844,584

(3) Leases

In 2017, WFEC entered into a capital lease as a lessee for multiple solar generation facilities. The lease agreement expires in 2026, at which time WFEC has the option to purchase the solar generation sites. The gross amount of the lease was $32,604,000 at December 31, 2019 and 2018, with accumulated amortization of $4,995,000 and $2,978,000 at December 31, 2019 and 2018, respectively. The principal and interest payments were $3,166,000 for 2019, of which $2,018,000 is for amortization of the right-of-use asset and $1,148,000 for interest. The principal and interest payments were $3,429,000 for 2018, of which $2,096,000 is for amortization of the right-of-use asset and $1,333,000 for interest. Lease payments are being treated as a production expense and the timing of the expense is evenly recognized over the lease term to conform with rate treatment under ASC 980-842-45, *Regulated Operations – Leases Other Presentation Matters*.

(Continued)

The schedule of future minimum lease payments for WFEC's capital lease as of December 31, 2019, is as follows (in thousands):

2020	$	3,166
2021		3,166
2022		3,166
2023		3,166
2024		3,166
Thereafter		7,745
Total minimum lease payments		23,575
Amounts representing interest		(5,731)
Present value of minimum lease payments		17,844
Current maturities		(2,099)
Long-term capital lease obligations		15,745
Bargain purchase option		9,764
Long-term capital lease obligations net	$	25,509

The current and long-term portions of the capital lease obligations are included in accounts payable and accrued liabilities and other liabilities, respectively, in the consolidated balance sheets.

(4) Investments in Associated Organizations and Other Investments

		2019	2018
		(In thousands)	
National Rural Utilities Cooperative Finance:			
Corporation (CFC):			
3% capital term certificates	$	300	300
5% capital term certificates		6,130	6,130
Patronage capital certificates		1,536	1,573
CoBank Class A stock		10,303	9,269
ACES		1,268	1,234
Other		44	43
	$	19,581	18,549

WFEC purchased capital term certificates and stock as required by institutions under borrowing arrangements. Fair value of the certificates and stock is not readily determinable.

In 2002, WFEC joined ACES as a member. As of December 31, 2019, WFEC owned 4.76% of ACES equity. The investment in the partnership is accounted for using the equity method of accounting.

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(5) Regulatory Assets, Regulatory Liabilities, Other Assets, and Other Liabilities

WFEC is subject to the provisions of ASC 980, *Regulated Operations*. Regulatory assets represent probable future revenue to WFEC associated with certain costs which will be recovered from customers through the ratemaking process. Deferred debits and credits at December 31 contained the following:

		2019	2018
		(In thousands)	
Regulatory assets:			
Unamortized cost associated with lease/leaseback	$	20,619	23,653
Other assets:			
Unamortized RS prepayment (see note 10)		5,374	7,165
Preliminary survey and investigation charges		195	257
Unamortized debt expense		352	442
Premiums on debt refinancing		18,416	20,257
Deferred Debit for SPP attachment Z2 credits		11,967	—
Receivable for SPP attachment Z2 credits		—	3,774
	$	56,923	55,548

		2019	2018
		(In thousands)	
Regulatory liabilities:			
Deferred revenue for SPP attachment Z2 credits	$	—	21,803
Deferred revenue		5,600	—
Over recovered fuel		11,486	9,400
Other liabilities:			
Unearned revenue		295	1,430
Early Termination of Transition Agreements (see note 13)		2,191	2,921
	$	19,572	35,554

As of December 31, 2019, WFEC's regulatory assets are being reflected in rates charged to customers over 7 years.

The regulatory and other assets are reflected in deferred debits and the regulatory and other liabilities are in other liabilities in the accompanying consolidated balance sheets, except for over recovered fuel which is in accounts payable and accrued liabilities.

In 2013, a long-term lease-leaseback transaction reflected as a financing for financial reporting purposes was terminated. WFEC received Board and RDUP authority to defer and amortize as a regulatory asset the net impact of the termination on a straight line basis through 2026, which approximates $3,035,000 of annual amortization. WFEC's electric rates are designed to recover this cost.

(Continued)

Premiums on early extinguishment of debt arising from refinancing transactions are being amortized over approximately 11 years, the remaining life of the replacement debt, using the straight-line method.

With Board and RDUP approval, in 2016 WFEC deferred recognition of $33,459,000 of revenue from the net credit due for Attachment Z2 of the Southwest Power Pool (SPP) Open Access Transmission Tariff (OATT) for the period of March 1, 2008 through August 31, 2016. Attachment Z2 of the OATT contains the provisions for the revenue credits which are designed to compensate entities that pay for certain assets that are subsequently used to provide transmission service to other parties. In October 2016, WFEC was informed by SPP that it was due $33,459,000 of reimbursement from SPP participants related to these transmission services provided. The revenue was being accreted into income ratably from 2017 through 2021. In 2017, SPP resettled the original period under the Attachment Z2 of the SPP OATT, which resulted in WFEC being due an additional $2,303,000. WFEC received Board and RDUP approval to defer and accrete the additional balance over the remainder of the original deferral period through 2021. In 2017, as part of the resettlement, WFEC received $653,000 in cash of the total revenue with the remaining $1,650,000 plus interest due in quarterly payments through 2021. Cash equal to the balance of the deferred revenue was segregated and restricted until a like amount was subsequently accreted into revenue (see note 1 (f)).

On February 28, 2019, the Federal Energy Regulatory Commission (FERC) issued an order on remand that reverses the settlement for Attachment Z2 of the SPP OATT for the periods of March 1, 2008 through August 31, 2016 with exception of the twelve months preceding the billing date of that settlement, which was October 31, 2016. In response, SPP filed a report in June 2019 requesting a stay of the remand order's refund directive and further consideration of the reversal of the settlement among other items. FERC has not responded to SPP's filing as of the date of this audit. As a result of the FERC order WFEC estimates it will be required to refund approximately $26,700,000, plus interest calculated at the FERC interest rate as of December 31, 2019.

With Board and RDUP approval, WFEC terminated the revenue deferral plan pertaining to the net credit due for Attachment Z2 of the SPP OATT, as of February 28, 2019. The deferred revenue balance as of the termination date was approximately $21,197,000. The termination of the revenue deferral plan eliminated the regulatory liability remaining for the Z2 credit. The estimated refund amount in excess of the regulatory liability of $11,967,000 is reflected as a deferred debit and will be deferred until final resolution is determined. The estimated refund balance of $30,714,000 is included in accounts payable and accrued liabilities in the accompanying consolidated financial statements.

With Board and RDUP approval, WFEC implemented a 2019 revenue deferral plan to mitigate potential rate impacts pertaining to future capacity expansion projects, potential environmental regulation impacts and other industry activities. WFEC deferred $5,600,000 to be recognized no later than 2029. Cash equal to the balance of the deferred revenue is segregated and restricted until a like amount is subsequently accreted into revenue (see note 1 (f)).

(Continued)

(6) Patronage Capital

WFEC's bylaws state that patronage allocations are based on WFEC's net income as determined for federal income tax purposes. Patronage allocations are assigned to patrons' accounts as credits on a patronage basis. Using this allocation method, patronage capital of $845,000 was allocated for the year ended December 31, 2018. The allocation for 2019 is estimated to be $13,504,000. For financial reporting purposes, net margins are assigned to members on a patronage basis.

WFEC's Indenture (see note 7) contains restrictions on distributions of capital. The Board of Trustees authorized a patronage capital retirement for 2019 and 2018 of $5,107,000 and $6,599,000, respectively.

(7) Debt

Long-term debt at December 31 consisted of the following:

		2019	2018
		(In thousands)	
First mortgage notes:			
Notes payable to Federal Financing Bank (FFB), interest from 1.31% to 7.71%, a weighted average of 3.19%, due in quarterly installments through 2049	$	606,797	517,416
Notes payable to the RDUP, interest from 4.75% to 5.00%, a weighted average of 4.76%, due in monthly and quarterly installments through 2025		4,149	4,755
Note payable to CoBank, interest at 5.71%, due in quarterly installments. Debt repaid in January 2019.		—	374
Note payable to CoBank, interest at 6.22%, due in monthly installments through November 2025		1,650	1,859
Notes payable to CoBank, interest from 5.33% to 6.37%, a weighted average of 6.36%, due in quarterly installments through April 2038		100,929	103,717
Notes payable to CFC with varying amounts, interest from 3.60% to 4.55%, a weighted average of 4.43% due in quarterly installments through June 2024		4,822	6,426
Notes payable to CoBank, interest from 4.42% to 4.76%, a weighted average of 4.52%, due in quarterly installments through October 2042		52,708	53,977
Notes payable to CoBank, interest at 8.35%, due in annual installments through January 2027, with a balloon payment due in 2027		30,201	30,752
Notes payable to CoBank, interest at 3.5%, due in quarterly installments through December 2029		92,035	99,430

(Continued)

	2019	2018
	(In thousands)	
Other notes:		
Notes payable to CFC, interest from 4.40% to 5.55%, a weighted average of 4.86%, due in quarterly installments through 2023	$ 6,735	8,225
Syndicated line of credit, at December 31, 2019	—	52,000
Note payable to CoBank, interest at 3.70%, due in quarterly installments through July 2023	7,489	9,321
	907,515	888,252
Less current portion of long-term debt	42,560	94,808
Total long-term debt	$ 864,955	793,444

Annual payments of long-term debt for subsequent years are as follows (in thousands):

2020	$ 42,560
2021	43,868
2022	46,650
2023	48,004
2024	45,854
Thereafter	680,579
	$ 907,515

WFEC executed an Indenture, dated as of April 8, 2011, between WFEC, as grantor, and U.S. Bank National Association, as trustee (the Indenture). Effective that date, all of the first mortgage notes listed above are secured equally and ratably under the Indenture by a first priority lien on substantially all of the assets of WFEC, subject to certain exceptions and limitations. Under the terms of the Indenture, substantially all of the after-acquired assets of WFEC become subject to the lien of the Indenture. Also, under the terms of the Indenture, the RDUP Loan Contract and other loan agreements, WFEC must maintain certain financial covenants. Management believes WFEC was in compliance with these financial covenants at December 31, 2019.

WFEC has a $100,000,000 five-year committed revolving line of credit agreement with CFC for general corporate purposes through October 2021. No advances were outstanding on the CFC line of credit at December 31, 2019 and 2018. Letters of credit totaling $32,151,000 and $27,765,000 had been issued under this arrangement at December 31, 2019 and 2018, respectively.

WFEC has a $200,000,000 credit agreement with a syndication of financial institutions to provide a committed line of credit as support for general corporate purposes with a term through November 2023. The outstanding balance on this credit agreement at December 31, 2019 and 2018 was $0 and $52,000,000, respectively.

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Approximately $200,000,000 and $148,000,000 of borrowing capacity was available on the syndicated line of credit at December 31, 2019 and 2018, respectively. Approximately $67,849,000 and $72,235,000 of borrowing capacity was available on the CFC lines of credit at December 31, 2019 and 2018, respectively.

WFEC had $268,442,000 of unadvanced funds available at December 31, 2019 from an FFB note executed in 2019. Approximately $172,765,000 is available for transmission and distribution additions and replacements and $95,677,000 for generation system improvement projects.

(8) Production Expenses

WFEC's production expenses for the years ended December 31 include the following:

		2019	2018
		(In thousands)	
Fuel	$	42,551	80,466
Other production expenses		27,755	27,279
Total production expenses	$	70,306	107,745

As disclosed in note 1, under WFEC's contracts with its members, costs of fuel are recovered through rates charged to members.

(9) Income Taxes

WFEC is a nonexempt cooperative subject to federal and state income taxes and files a consolidated tax return. As a cooperative, WFEC is entitled to exclude patronage dividends from taxable income. WFEC's bylaws require it to declare patronage dividends in an aggregate amount equal to WFEC's federal taxable income from its furnishing of electric energy and other services to its member-patrons. Accordingly, such income will not be subject to income taxes.

Nonmember operations are subject to federal income taxes. Historically, WFEC's nonmember operations have generated tax losses. The primary differences between WFEC's book income and WFEC's nonmember tax losses are the result of tax depreciation and tax patronage allocations.

As of December 31, 2019 and 2018, WFEC's deferred tax asset before valuation allowance was approximately $3,100,000 and $2,886,000, respectively. Based on WFEC's historical results, management does not believe that it is more likely than not that WFEC will be able to realize the benefit of the deferred tax asset, which includes net operating loss carryforwards of approximately $15,838,000, which expire in 2019 and thereafter.

No income tax expense was provided in 2019 and 2018, due to the availability of net operating loss carryforwards to offset nonmember income for tax purposes. On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was signed into legislation. The Act reduced the U.S. federal corporate income tax rate from 34% to 21%. WFEC revised its estimated effective tax rate for the nonmember operations to reflect the change in the federal statutory rate.

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The approximate net deferred tax asset and valuation allowance at December 31 were as follows:

		2019	2018
		(In thousands)	
Tax-effected deductible temporary differences	$	3,100	2,886
Deferred tax asset		3,100	2,886
Less valuation allowance		(3,100)	(2,886)
Net deferred tax asset	$	—	—

(10) Retirement Plans

Substantially all employees of WFEC participate in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan). The RS Plan is a defined benefit pension plan qualified under Section 401 and 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.

WFEC contributions to the RS Plan in 2019 and 2018 represented less than 5% of the total contributions made to the RS Plan by all participating employers. WFEC makes annual contributions to the RS Plan equal to the amounts accrued for pension expense, which is dependent on the employee's date of hire. These contributions to the plan were approximately $7,362,000 and $7,372,000 in 2019 and 2018, respectively.

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 January 1, 2019 and 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.

At the December 2012 meeting, the Insurance and Financial Services Committee of the NRECA Board of Directors approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After

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making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1 of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period. On April 17, 2013, the Board approved a prepayment of $17,913,000 to the NRECA RS Plan. WFEC is amortizing this amount over 10 years to employee pensions and benefits which, in turn, is allocated to applicable functional operations, maintenance, administrative, construction, and retirement activities. The balance of the prepayment of $5,374,000 and $7,165,000 as of December 31, 2019 and 2018, respectively, was recorded in deferred debits.

Substantially all employees of WFEC also participate in the NRECA 401(k) Pension Plan option. Under the plan, WFEC contributes amounts not to exceed 8% of the respective employee's base pay to the plan, dependent on the employee's level of participation and the employee's date of hire. Employees may contribute up to the Internal Revenue Service prescribed limit of their base pay to the plan. Contributions are immediately 100% vested. Benefits paid under the plan are limited to the sum of the employee's and WFEC's contributions and investment earnings or losses on those contributions. WFEC contributed approximately $2,094,000 and $1,977,000 to the plan in 2019 and 2018, respectively.

(11) Fair Value of Financial Instruments

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis at December 31, 2019 and 2018:

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2019
Liabilities:					
Commodity derivatives	$	—	(458,000)	—	(458,000)
Total liabilities	$	—	(458,000)	—	(458,000)

(Continued)

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2018
Liabilities:				
Commodity derivatives	$ —	(170,000)	—	(170,000)
Total liabilities	$ —	(170,000)	—	(170,000)

(12) Derivative Instruments and Hedging Activities

WFEC periodically enters into commodity swap, collar and option contracts for a portion of its anticipated natural gas or power purchases, to manage the price risk associated with fluctuations in market prices. These contracts limit the unfavorable effect that price increases will have on natural gas or power purchases. WFEC has elected to not designate its commodity contracts as cash flow hedges; therefore, changes in the fair value of the commodity contracts are recorded as an asset or liability and as an increase or reduction to production or purchased power expense. In accordance with ASC 980-10, *Regulated Operations Overall*, gains and losses from price management activities are included in WFEC's fuel cost recovered from members as part of WFEC's rate-making policy. As such, an asset or liability, that offsets the change in the fair value of the commodity contracts recorded in production or purchased power expense, is established to record the amount of fuel costs over collected from or unbilled to members of WFEC. The fair value of the commodity swaps resulted in a liability and a related receivable from members (through future increased fuel charges) of $458,000 and $170,000 as of December 31, 2019 and 2018, respectively. The fair value of the liability is reflected in accounts payable and accrued liabilities in the accompanying consolidated financial statements. WFEC has entered into derivative type commodity contracts for future transactions with terms expiring through December 2020.

(13) Commitments and Contingencies

(a) Addition of and Sales to New Mexico Cooperatives

In 2010, four New Mexico distribution cooperatives (Cooperative, collectively Cooperatives) were added to the membership of WFEC. Each Cooperative executed a Wholesale Power Contract (WPC) and has one vote on the Board of Trustees through their respective representative. Together, the Cooperatives currently have approximately 400 MW of load. Their service territories are adjacent to one another in southeastern New Mexico and are located in the Southwest Power Pool (SPP) footprint, as is WFEC. The Cooperatives will continue to own and maintain their respective delivery systems and have delivery points on the utility from which they have historically purchased their power needs. Transmission service for WFEC to serve the cooperative across that utility will be provided through the SPP Open Access Transmission Tariff.

WFEC and the Cooperatives also executed a Transition Agreement (Agreement), effective in 2010 and terminating June 1, 2026. During this transition period, the Cooperatives are members of WFEC with all rights, privileges, and obligations of membership, but with a separate cost of service rate

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(Segregated Rate). The Segregated Rate shall generate sufficient revenue to cover the Cooperative's cost of service as well as produce sufficient revenues that when combined with all other WFEC revenues, meet WFEC Board-determined reserves. During the transition period, each Cooperative shall be responsible for (1) costs, which are directly and uniquely related to the supply and delivery of electric power and energy to that respective Cooperative, (2) its share of costs common to the Cooperatives located in New Mexico, and (3) its share of costs common to all members of WFEC. After the transition period and for the remaining term of the WPC, the Segregated Rate shall no longer be used, and the Cooperatives shall be a member with a then applicable cost of service rate or rates common with other members of WFEC (Member Rate) and consistent with the WPC.

Immediate and short-term generation requirements of the Cooperatives will continue to be provided from a combination of existing contracts with Southwestern Public Service Company (SPS) and WFEC. The SPS contracts provide that the power and energy available from SPS will reduce in four increments, the first two occurred in 2012 and 2017 with the remaining increments in 2022 and 2024, then the contracts terminate in the spring of 2026. WFEC provided 91 MW in 2016, increased to approximately 172 MW in 2017, and will be responsible for providing 320 MW in 2022, 370 MW in 2024, and fully responsible for all needs of the Cooperatives after the SPS contracts terminate in 2026.

On May 1, 2014, the Cooperatives' third-party supplier contracts and generation resources were assigned to WFEC. Per the Agreement, the Cooperatives shall, through May 31, 2026, continue to pay all charges and costs arising from the third-party supplied contracts and contributed generation as part of the Segregated Rate.

Each Cooperative will contribute equity to WFEC in a manner and amount such that, as of June 1, 2026, the Cooperative has contributed equity to WFEC comparable to the amount of equity contributed to WFEC by prior existing members. These equity contribution payments are generally determined by each cooperative's ratio of coincident peak load to the total existing members' coincident peak load multiplied by the projected target equity, and are collected and paid to WFEC through the Segregated Rate. The contributed equity of each Cooperative is assigned to their respective patronage account.

Effective December 31, 2018, WFEC and three of the four Cooperatives mutually agreed to terminate their respective Agreements. Beginning January 2019, these Cooperatives representing approximately 304 MW of the New Mexico load, will be billed the Member Rate consistent with the WPC. An equity contribution true-up amount was determined for each respective Cooperative which will be paid by WFEC in equal monthly amounts over a five-year period (2019-2023). Members' Equity Contributed Capital was reduced by $3,651,000 as of December 31, 2018, representing an over collection of equity by WFEC for these Cooperatives.

(b) Purchase Requirements

WFEC has a long-term standby power contract with Southwestern Power Administration under which it is obligated to purchase a minimum quantity of power annually through May 2028. At the prescribed 2020 rates, the minimum requirement approximates $19,092,000. During 2019 and 2018, WFEC purchased $25,416,000 and $22,100,000, respectively.

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WFEC has a long-term purchased power contract with a party through December 2025 under which it is obligated to purchase a minimum quantity of power on a monthly basis. Based on contract information and power cost adjustment information currently published, the annual obligation for 2020 is estimated at $56,849,000. During 2019 and 2018, WFEC purchased $36,962,000 and $57,241,000, respectively.

WFEC has long-term purchase power contracts with a party through May of 2026, under which it is obligated to purchase decreasing minimum monthly quantities of power at prescribed contract intervals. These contracts are load-following with no minimum energy obligation. The current projection for the minimum contract commitment is $18,441,000 for 2020. During 2019 and 2018, WFEC purchased $85,672,000 and $95,664,000, respectively.

WFEC negotiated multiyear contracts to acquire and transport coal for the Hugo Generating Station annually through December 2021. WFEC does not have a minimum contract commitments for coal and coal transportation in 2020, but must take the remainder of the coal and coal transportation contract obligations by the end of 2021, which is approximately $11,486,000 as of December 31, 2019. WFEC's costs for both coal and transportation purchases were approximately $16,000,000 and $34,000,000 for the years ended December 31, 2019 and 2018, respectively.

WFEC has a long-term purchased power contract with a party through December 2035, under which it is obligated to purchase increasing minimum monthly quantities of power at prescribed contract intervals. The current projection for the minimum contract commitment is $25,819,000 in 2020. During 2019 and 2018, WFEC purchased $42,099,000 and $40,492,000, respectively.

In 2014, WFEC negotiated multiyear contracts for the transportation and storage of a portion of its Anadarko and Mooreland Generating Station gas requirements through February 2044. The current projection for the minimum contract commitments for gas transportation and storage is approximately $8,022,000 in 2020. WFEC's costs for both transportation and storage purchases were approximately $8,492,000 and $9,121,000 for 2019 and 2018, respectively.

WFEC has long-term power agreements for the purchase of 737 MW of wind and solar energy from various power suppliers. WFEC does not have fixed cost obligations and pays only for the energy produced at fixed prices for the term of the agreements. The agreements have varying terms, and some have extension options. The longest contract term extends to 2053. WFEC's expense for energy purchased under these agreements was $87,410,000 and $83,635,000 in 2019 and 2018, respectively.

(c) Environmental

WFEC, as is common with other electric utilities, is subject to stringent existing environmental laws, rules, and regulations by federal, state, and local authorities with regard to air and water quality control, solid and hazardous waste disposal, hazardous material management, and toxic substance control. Management believes it is in substantial compliance with all existing laws, rules, and regulations.

WFEC generates waste subject to the Federal Resource and Conservation and Recovery Act of 1976 (RCRA) and similar state of Oklahoma requirements. In 2015, the U.S. Environmental Protection Agency (EPA) finalized a rule under RCRA for handling and disposing of coal combustion residual (CCR) or coal ash. The rule regulates coal ash as a nonhazardous waste. In June 2018, the EPA approved the State of Oklahoma's application for authority to permit coal ash. Oklahoma was the first

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state to be granted authority of the CCR permitting program. Therefore, the Oklahoma Department of Environmental Quality (DEQ) manages the disposal of coal ash in Oklahoma. Specifically for WFEC, the DEQ governs the Hugo Plant landfill and ash impoundments. WFEC is working with the DEQ to coordinate and complete closure of the two ash impoundments at the Hugo Plant. One ash impoundment is scheduled for closure in 2020 and the second by 2023. Additionally, in 2018 WFEC installed a dry ash removal system to support closure requirements with the CCR permit program.

Additionally, the EPA issued Effluent Limitation Guidelines (ELG) that became effective January 2016. Compliance with CCR will also support the Hugo Plant compliance with ELG.

WFEC evaluated current operations with the CCR and ELG rules and determined, that for 2019, no revision was needed to asset retirement obligation (ARO) estimates. The liabilities are estimates based on various assumptions including, but not limited to, closure and post-closure cost estimates, timing of expenditures, escalation factors and discount rates (see note 14).

WFEC's generating plant operations are subject to various Federal Clean Air Act (CAA) and similar Oklahoma DEQ air quality requirements. These requirements regulate emissions of air pollutant from various industrial sources including electric generating units and require certain permitting, monitoring and reporting. On certain projects, pre-approval is needed for construction or modifications when these projects can have the potential to increase emissions above stated thresholds.

In August 2011, EPA finalized the Cross State Air Pollution Rule (CSAPR) which requires 27 states in the eastern half of the U.S., including Oklahoma, to reduce emissions that contribute to ozone and particulate emissions. As a result, dry low NOx burners were added to Anadarko combined cycle units. In 2016 EPA promulgated a CSAPR update which applies to 22 eastern states including Oklahoma.

Regional Haze is an EPA effort designed to improve visibility in National Parks and Class I areas over a 64-year period. Regional Haze Phase II will become affective in 2028. Modeling and studies are underway to determine if any additional controls are needed on specific generating units.

(d) Legal

WFEC is involved in various other legal actions arising in the ordinary course of business. In the opinion of management, after consultation with counsel, the ultimate disposition of these matters will not have a material adverse effect on WFEC's financial position or the results of future operations.

(14) Asset Retirement Obligation

WFEC has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities at the time that certain machinery and equipment is disposed. The liability is initially measured at fair value and subsequently adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. Activity for the asset retirement obligations, included in accounts payable and accrued liabilities in the accompanying balance sheets, for the years ended December 31 is as follows:

		2019	2018
		(In thousands)	
Beginning balance	$	12,349	11,738
Additional liabilities incurred		—	—
Settlement of liability		(294)	—
Revisions to estimates		—	—
Accretion expense		643	611
Ending balance	$	12,698	12,349

(15) Comprehensive Income

The accumulated balance of other comprehensive income is as follows:

		Pension and postretirement benefit plans
		(In thousands)
Balance, December 31, 2017	$	879
Net current period change		(90)
Balance, December 31, 2018		789
Net current period change		(251)
Balance, December 31, 2019	$	538

(16) Subsequent Events

WFEC has evaluated subsequent events from the balance sheet date through March 9, 2020, the date at which the consolidated financial statements were available to be issued.

7 COOPERATIVE PRINCIPLES

1 VOLUNTARY AND OPEN MEMBERSHIP

Cooperatives are voluntary organizations open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2 DEMOCRATIC MEMBER CONTROL

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. The elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote), and cooperatives at other levels are organized in a democratic manner.

3 MEMBERS' ECONOMIC PARTICIPATION

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefitting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4 AUTONOMY AND INDEPENDENCE

Cooperatives are autonomous, self help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5 EDUCATION, TRAINING AND INFORMATION

Cooperatives provide education and training for their members, elected representatives, managers and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of cooperation.

6 COOPERATION AMONG COOPERATIVES

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7 CONCERN FOR COMMUNITY

While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

The National Rural Electric Cooperative Association (NRECA) is the national service organization for more than 900 not-for-profit rural electric cooperatives and public power districts providing retail electric service to more than 42 million consumers in 47 states and whose retail sales account for approximately 12 percent of total electricity sales in the United States. Learn more at **NRECA.coop**

NRECA
A Touchstone Energy® Cooperative

This institution is an equal opportunity provider and employer.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at https://www.ascr.usda.gov/ad-3027-usda-program-discrimination-complaint-form and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: program.intake@usda.gov