ROBERT C. MUELLER
Vice President and CFO
Finance and Support Services

DAIRYLAND POWER
COOPERATIVE

April 24, 2009

In reply, please
refer to LAC 14065

DOCKET NO. 50-409

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, D.C. 20555

SUBJECT: Dairyland Power Cooperative
La Crosse Boiling Water Reactor (LACBWR)
Possession-Only License No. DPR-45
Financial Statement and Auditors' Report

REFERENCE: 1) 10 CFR 50.71.(b)

In accordance with the requirements of Reference 1, we are forwarding three (3) copies of the Financial Statements and Independent Auditors' Reports for Dairyland Power Cooperative as of December 31, 2008 and 2007. We will forward our 2008 Annual Report to you as soon as it is completed.

Sincerely,

DAIRYLAND POWER COOPERATIVE

Robert C. Mueller
Vice President and CFO
Finance and Support Services

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Enclosures

cc: Mark Satorius, Regional Administrator, Region III
Kristina Banovac, Project Manager
Mike Brasel, LACBWR

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A Touchstone Energy® Cooperative

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Deloitte.

Dairyland Power Cooperative and Subsidiaries

Consolidated Financial Statements
as of and for the Years Ended
December 31, 2008 and 2007, and
Independent Auditors' Report

Dairyland Power Cooperative and Subsidiaries

Consolidated Financial Statements
as of and for the Years Ended
December 31, 2008 and 2007, and
Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dairyland Power Cooperative:

We have audited the accompanying consolidated balance sheets of Dairyland Power Cooperative (a Wisconsin cooperative) and subsidiaries (the "Cooperative") as of December 31, 2008 and 2007, and the related consolidated statements of revenues and expenses, member and patron equities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Cooperative as of December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Cooperative adopted Financial Accounting Standards Board (FASB) SFAS Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment to FASB Statements No. 81, 88, 106, and 132(R)*, as of December 31, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2009, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

March 31, 2009

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(In thousands)

	2008	2007
ASSETS		
ELECTRIC PLANT:		
Plant and equipment — at original cost	$ 1,300,824	$ 879,327
Less accumulated depreciation	(425,330)	(406,721)
Net plant and equipment	875,494	472,606
Construction work in progress	95,190	419,547
Total electric plant	970,684	892,153
OTHER ASSETS:		
Nuclear decommissioning funds	73,088	83,059
Investments under debt agreements — marketable securities	3,150	2,983
Economic development loans and other investments	7,599	7,136
Investments in capital term certificates of National Rural Utilities Cooperative Finance Corporation	9,176	9,176
Regulatory asset — deferred losses on nuclear decommissioning funds	16,479	-
Investment for deferred compensation	1,003	1,303
Deferred charges	8,383	6,927
Total other assets	118,878	110,584
CURRENT ASSETS:		
Cash and cash equivalents	8,898	3,519
Accounts receivable:		
Energy sales — net of allowance for doubtful accounts of $60 for 2008 and $60 for 2007	36,499	30,443
Other	5,134	3,691
Inventories:		
Fossil fuels	66,759	56,283
Materials and supplies	20,462	18,946
Prepaid expenses	2,654	1,233
Total current assets	140,406	114,115
TOTAL	$ 1,229,968	$ 1,116,852

(Continued)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(In thousands)

CAPITALIZATION AND LIABILITIES	2008	2007
CAPITALIZATION:		
Member and patron equities:		
Membership fees	$ 14	$ 14
Patronage capital	139,375	130,370
Accumulated other comprehensive income	(2,167)	(2,518)
Total member and patron equities	137,222	127,866
Long-term obligations	731,568	700,253
Total capitalization	868,790	828,119
OTHER LIABILITIES:		
Estimated decommissioning liabilities	79,527	77,167
Asset retirement obligations	3,749	2,833
Postretirement health insurance obligation	6,220	5,997
Accrued benefits	1,445	1,492
Deferred compensation	1,003	1,303
Other deferred credits	314	148
Total other liabilities	92,258	88,940
COMMITMENTS AND CONTINGENCIES (Note 9)		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	32,254	29,015
Line of credit	185,900	113,775
Advances from member cooperatives	3,259	5,598
Accounts payable	30,764	36,477
Accrued expenses:		
Payroll and vacation	7,935	7,006
Interest	2,452	2,064
Property and other taxes	2,137	2,410
Other	4,219	3,448
Total current liabilities	268,920	199,793
TOTAL	$1,229,968	$1,116,852

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (In thousands)

	2008	2007
UTILITY OPERATIONS:		
Operating revenues:		
Sales of electric energy	$358,552	$314,357
Other	15,266	14,094
Total operating revenues	373,818	328,451
Operating expenses:		
Fuel	157,084	135,757
Purchased and interchanged power	33,148	36,899
Other operating expenses	78,724	68,670
Depreciation and amortization	26,793	21,864
Maintenance	32,303	26,017
Property and other taxes	6,331	5,682
Total operating expenses	334,383	294,889
Operating margin before interest and other	39,435	33,562
Interest and other:		
Interest expense	32,774	24,033
Allowance for funds used in construction — equity	(971)	(530)
Other — net	163	222
Total interest and other	31,966	23,725
Operating margin	7,469	9,837
Non-operating margin	2,191	2,512
NET UTILITY MARGIN	9,660	12,349
NON-UTILITY OPERATIONS:		
Net revenues	4,124	4,488
Operating expenses	(2,510)	(2,537)
Non-utility operating income	1,614	1,951
Interest income	2	8
Non-utility income before income taxes	1,616	1,959
Benefit for income taxes	-	(8)
NON-UTILITY EARNINGS	1,616	1,951
NET MARGIN AND EARNINGS	$ 11,276	$ 14,300

The accompanying notes are an integral part of the consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBER AND PATRON EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands)

	Membership Fees	Accumulated Other Comprehensive Loss	Patronage Capital	Total Member and Patron Equities
BALANCE — December 31, 2006	$ 14	$ -	$ 118,186	$ 118,200
Net margin and earnings			14,300	14,300
Total comprehensive income 2007				14,300
Implementation of SFAS No. 158 — net of tax		(2,518)		(2,518)
Retirement of capital credits			(2,116)	(2,116)
BALANCE — December 31, 2007	14	(2,518)	130,370	127,866
Net margin and earnings			11,276	11,276
Total comprehensive income 2008				11,276
SFAS No. 158 — changes net of tax of $0		351		351
Retirement of capital credits			(2,271)	(2,271)
BALANCE — December 31, 2008	$ 14	$ (2,167)	$ 139,375	$ 137,222

The accompanying notes are an integral part of the consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin and earnings	$ 11,276	$ 14,300
Adjustments to reconcile net margin and earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization:		
Charged to operating expenses	26,831	21,900
Charged through other operating elements such as fuel expense	2,265	2,271
Allowance for funds used in construction — equity	(971)	(530)
Changes in operating elements:		
Accounts receivable	(7,551)	(5,068)
Inventories	(12,518)	(16,820)
Prepaid expenses and other assets	(1,226)	495
Accounts payable	(12,733)	(11,320)
Accrued expenses and other liabilities	(882)	(12,477)
Deferred charges and other	(1,651)	(1,251)
Total adjustments	(8,436)	(22,800)
Net cash provided by (used in) operating activities	2,840	(8,500)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric plant additions	(96,694)	(164,903)
Advances to nuclear decommissioning funds	(2,500)	(2,400)
Withdrawals from nuclear decommissioning funds	-	7,029
Purchase of investments	(87,797)	(133,577)
Proceeds from sale of investments and economic development loans	87,461	133,174
Net cash used in investing activities	(99,530)	(160,677)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit	288,975	308,276
Repayments under line of credit	(216,850)	(255,001)
Borrowings under long-term obligations	78,212	197,145
Repayments of long-term obligations	(43,658)	(78,775)
Retirement of capital credits	(2,271)	(2,116)
Borrowings of advances from member cooperatives	178,036	151,242
Repayments of advances from member cooperatives	(180,375)	(150,077)
Net cash provided by financing activities	102,069	170,694
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,379	1,517
CASH AND CASH EQUIVALENTS — Beginning of year	3,519	2,002
CASH AND CASH EQUIVALENTS — End of year	$ 8,898	$ 3,519
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 44,365	$ 47,646
Electric plant additions funded through accounts payable and accrued expenses	$ 13,424	$ 20,444

The accompanying notes are an integral part of the consolidated financial statements.

1. NATURE OF BUSINESS AND ORGANIZATION

Business — Dairyland Power Cooperative and subsidiaries ("Dairyland" or the "Cooperative") is an electric generation and transmission cooperative organized under the laws of the states of Wisconsin and Minnesota. The Cooperative, whose principal offices are located in Wisconsin, provides wholesale electric service to Class A members engaged in the retail sale of electricity to member consumers located in Wisconsin, Minnesota, Iowa, and Illinois, and provides electric and other services to Class C, D, E, and F members.

Principles of Consolidation — The consolidated financial statements include the accounts of Dairyland, GEN~SYS Energy (GEN~SYS), and Dairyland's wholly owned subsidiary, Genoa FuelTech, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

GEN~SYS Energy — The Cooperative is a member of GEN~SYS, a power supply and marketing cooperative, the primary purpose of which is to schedule and dispatch generation resources and to provide other power-related support services to its members, which also include Corn Belt Power Cooperative and Distribu-Gen Cooperative. GEN~SYS is owned equally by its members, but in fiscal years 2008 and 2007, substantially all of the GEN~SYS activities that produced margin, including energy purchases and sales, were derived from Dairyland. Dairyland has consolidated the accounts of GEN~SYS in the consolidated balance sheets, the consolidated statements of revenues and expenses in non-utility operations, and the consolidated statements of cash flows for fiscal years 2008 and 2007.

Accounting System and Reporting — The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as adopted by the Rural Utilities Service (RUS), the Cooperative's principal regulatory agency.

Electric Plant — The cost of renewals and betterments of units of property (as distinguished from minor items of property) includes contract work, direct labor and materials, allocable overhead, and allowance for funds used during construction, and is charged to electric plant accounts. Included in accumulated depreciation are nonlegal or noncontractual costs of removal components. As a result, the cost of units of property retired, sold, or otherwise disposed of, plus removal costs, less salvage, is charged to accumulated depreciation and no profit or loss is recognized in connection with ordinary retirements of property units. A provision for these nonlegal or noncontractual costs of removal components is recognized based on RUS-approved depreciation rates. The Cooperative is unable to obtain the information to separate the cumulative removal costs as of December 31, 2008 and 2007. Maintenance and repair costs and replacement and renewal of minor items of property are charged to operations.

Depreciation — Depreciation, which is based on the straight-line method at rates that are designed to amortize the original cost of properties over their estimated useful lives, includes a provision for the cost of removing and decommissioning the properties. The provision for depreciation averaged 2.7% and 2.9% of depreciable plant balances in 2008 and 2007, respectively.

Allowance for Funds Used During Construction — Allowance for funds used during Construction (AFUDC) represents the cost of external and internal funds used for construction purposes and is capitalized as a component of electric plant by applying a rate (7.4% in 2008 and 6.3% in 2007) to certain electric plant additions under construction. The amount of such allowance was $5,578 in 2008 and $5,181 in 2007. The borrowed funds component of AFUDC for 2008 and 2007, was $4,607 and $4,651, respectively (representing 6.12% and 5.63% in 2008 and 2007, respectively). The equity component of AFUDC for 2008 and 2007 was $971 and $530, respectively, (representing 1.27% and 0.64%, in 2008 and 2007, respectively). These amounts were included as a reduction of interest expense in the consolidated statements of revenues and expenses.

Interest During Construction — Interest during construction represents the interest expense on debt borrowed during construction for specific projects and is capitalized as a component of the electric plant for which the debt was incurred. These capitalized interest amounts for 2008 and 2007 are $6,711 and $12,144, respectively.

Deferred Charges — Deferred charges represent future revenue to the Cooperative associated with costs that will be recovered from customers through the rate making process. As of December 31, 2008, the Cooperative's deferred charges are being reflected in rates charged to customers. If all or a separable portion of the Cooperative's operations no longer become subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, a write-off of deferred charges would be required, unless some form of transition recovery (refund) continues through rates established and collected for the Cooperative's remaining regulated operations. In addition, the Cooperative would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets. Deferred charges as of December 31, 2008, primarily represent a premium on debt refinancing, which is being amortized over approximately 20 years (the remaining life of related original debt), renewable energy power purchase agreements, which are being amortized over 20 years, and costs associated with preliminary project survey and investigation activities. The preliminary project survey and investigation costs will either be capitalized as property and plant if the projects move forward, or be expensed if the projects are abandoned.

Investments — Investments in marketable debt and equity securities classified as available for sale are reported at fair value, with the interest, dividend income, and realized gains reported in non-operating margin. The unrealized gains and losses increase or decrease the nuclear decommissioning liability (see Note 3). The Cooperative continually monitors the difference between cost and estimated fair value of its investments. If any of the Cooperative's investments experience a decline in value that the Cooperative believes is other than temporary, the Cooperative will realize the loss as a reduction in investment income on decommissioning funds. In 2008 and 2007, the Cooperative realized $8,472 and $1,645, respectively, of losses on these investments as a result of other-than-temporary impairment (OTTI).

Regulatory Assets and Liabilities — The Cooperative's accounting policies and the consolidated financial statements conform to accounting principles generally accepted in the United States of America applicable to electric cooperatives in accordance with the provisions of FASB Statement No. 71. In 2008 the Cooperative created a regulatory asset for $16,479 related to mark-to-market losses from investment assets in the nuclear decommissioning trust fund, and will be amortized no later than 2019.

Cash and Cash Equivalents — Cash equivalents include all highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of commercial paper, stated at cost, which approximates market.

Coal Stock and Materials and Supplies — Coal inventories as well as materials and supplies inventories are stated at the lower of average cost or market prices.

Recoverability of Long-Lived Assets — The Cooperative accounts for the impairment or disposal of long-lived assets in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires long-lived assets, such as property and equipment, to be evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated undiscounted cash flows expected to result from the use of the asset, plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value based on quoted market prices or other valuation techniques. To date, management has determined that no impairment of these assets exists.

Emission Allowances — The U.S. Environmental Protection Agency (EPA) has requirements limiting the amount of sulfur dioxide, which can be emitted from the Cooperative's power plants. Under these requirements, the Cooperative is allotted one emission allowance per ton of sulfur dioxide emissions. Currently, emission allowances are recorded under the inventory method at a cost of $0. As of December 31, 2008 and 2007, the Cooperative sold $140, and $170, respectively, of emission allowances through the EPA annual mandatory auction. These amounts were recorded as revenues in the non-operating margin.

Sales of Electric Energy — Revenues from sales of electric energy are recognized when energy is delivered. The Class A wholesale rates approved by the Cooperative's Board of Directors have a power cost adjustment that allows for increases or decreases in Class A member power billings based upon actual power costs compared to plan. For 2008 and 2007, the power cost adjustment to the Class A members resulted in a charge of $2,775 and $1,079, respectively. These amounts are recorded in sales of electric energy in operating revenues.

Other Operating Revenue — Other operating revenue includes primarily revenue received from transmission service and is recorded as services are provided.

Accounting for Energy Transactions — Contracts that did not meet the accounting definition of a derivative, as defined by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and FASB Statement No. 149, *Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities*, are accounted for at historical cost. The Cooperative's energy contracts that qualify as derivatives continue to be accounted for at fair value under FASB Statement No. 133 and No. 149, unless those contracts meet the requirements of and have been designated as "normal purchase/normal sale" as provided by FASB Statement No. 133 and No. 149. The Cooperative does not have any energy contracts that are required to be accounted for at fair value as of December 31, 2008 and 2007.

Dairyland and GEN~SYS have evaluated the guidance under Emerging Issues Task Force (EITF) Issue No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes" as Defined in Issue No. 02-3*, as well as EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, and have determined that GEN~SYS' energy purchases and sales activities will be presented on a net basis within the non-utility operations section of the consolidated statements of revenue and expenses.

Non-Operating Margin — The non-operating margin for the years ended December 31, 2008 and 2007, includes the following:

	2008	2007
Investment income	$ 603	$ 686
Investment income on nuclear decommissioning funds:		
Net earnings	2,096	2,726
Realized gains	1,641	2,193
Realized losses and losses due to OTTI	(13,127)	(2,164)
Provision — recorded as estimated decommissioning liabilities	9,390	(2,755)
Other	1,588	1,826
Non-operating margin	$ 2,191	$ 2,512

Income Taxes — The Cooperative's utility operations are generally exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code, and, accordingly, no provision for such taxes is recorded in the consolidated financial statements.

For its non-utility operations, the Cooperative accounts for the income taxes using the liability method, under which deferred income taxes are recognized for temporary differences between the income tax and financial reporting basis of the Cooperative's assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Cooperative's provision (benefit) for income taxes as of December 31, 2008 and 2007, consisted of the following:

	2008	2007
Current:		
Federal	$ -	$ 10
State	-	(2)
Deferred	-	-
Total	$ -	$ 8

The total income tax provision (benefit) expense differs from the amount computed by applying the effective income tax rate of 34% to non-utility operating (loss) income as of December 31, 2008 and 2007, are as follows:

	2008	2007
Overall effective federal and state income tax rate	34 %	34 %
Tax computed at federal statutory rate	$ 550	$ 666
Increase (decrease) in tax from:		
Patronage allocation	(549)	(655)
State income taxes — net of federal income tax benefit	-	1
Valuation allowance and carryforward/carryback	(1)	(4)
	$ -	$ 8

The Cooperative deferred taxes as of December 31, 2008 and 2007, were as follows:

	2008	2007
Net operating loss carryforward	$ 237	$ 286
Other	62	42
Valuation allowance	(299)	(328)
Net deferred tax asset	$ -	$ -

The Cooperative does not anticipate generating taxable income prior to the expiration of the Net Operating Loss ("NOL") carryforward and accordingly has recorded a full valuation allowance for its net deferred tax asset in an amount equal to the excess of the deferred tax asset over the deferred tax liability is necessary. The realization of the deferred tax assets depends on the ability of the Cooperative to generate sufficient taxable income in the future. As of December 31, 2008, the Cooperative has federal and state NOL carryforwards of $299 and $1,491, which begin to expire in 2026 and 2013, respectively.

Energy and Natural Gas Sales and Purchases — In its non-utility operations the Cooperative follows the requirements of EITF No. 99–19 and presents revenue from energy and natural gas sales, net of cost. For the purposes of additional disclosure, the gross sales and purchases as of December 31, 2008, representing $1,699 of the $4,124 net revenues from non-utility operations, and December 31, 2007, representing $1,821 of the $4,488 net revenues from non-utility operations are presented below:

	2008	2007
Energy sales	$ 102,691	$ 99,226
Natural gas sales	892	3,419
Energy purchases	101,003	97,419
Natural gas purchases	881	3,405

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant estimates in the consolidated financial statements relate to inventory reserve, postretirement benefit obligations, self-funded medical insurance reserves, asset retirement obligation (ARO) liabilities, fixed asset depreciable lives, and litigation and contingencies. Actual results could differ from those estimates.

Concentration of Risk — During fiscal years 2008 and 2007, the Cooperative derived 13% and 12%, respectively, of its revenue from a single customer.

Approximately 49% of the labor force for the Cooperative is under a collective bargaining agreement that expires January 31, 2012.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This statement requires the recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position, recognition of changes in the funded status in accumulated other comprehensive income, and measurement of the funded status of a plan as of the date of the year-end statement of financial position and provides for related disclosures. FASB Statement No. 158 was effective for fiscal year 2007. The adoption of FASB Statement No. 158 in 2007 resulted in a charge of $2,518 to accumulated other comprehensive loss. This amount represents the underfunded status of the Cooperative's postretirement health insurance obligation.

In December 2007, FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*. FASB Statement No. 160 changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. FASB Statement No. 160 is effective for financial statements issued for fiscal years beginning in fiscal 2009. The Cooperative is currently evaluating the impact of adopting FASB Statement No. 160 on its consolidated balance sheets or statements of income.

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In December 2008, the FASB issued Staff Position No. FIN No. 48-3, *Effective Date of FASB Interpretation No. 48 for Nonpublic Enterprises,* which defers the effective date of FIN 48 for entities that do not meet the definition of a public enterprise in accordance with FASB Statement No. 109. As a result, the Cooperative has elected to defer adopting FIN 48 until fiscal year 2009. The Cooperative is currently evaluating the impact FIN 48 will have on the consolidated financial statements. The Cooperative does not expect FIN 48 to have a material impact as the only impact will be through consolidation with GEN-SYS.

3. AVAILABLE-FOR-SALE INVESTMENTS

Investments under debt agreements and nuclear decommissioning funds as of December 31, 2008 and 2007, are classified as available-for-sale and include the following:

	Fair Value	
	2008	**2007**
Cash and cash equivalents	$ 21,979	$ 18,048
U.S. government securities	22,411	20,821
Corporate bonds	5,809	10,260
Common stocks	24,409	35,778
Foreign obligations	1,630	1,135
	$ 76,238	$ 86,042

Since the Cooperative intends to adjust rates in the future to reflect changes in the fair value of investments held in its nuclear decommissioning trust, unrealized gains of $3,166 and $7,944 on these investments as of December 31, 2008 and 2007, respectively, are included in estimated decommissioning liabilities. Investments under debt agreements represent amounts arising from the sale of assets that are encumbered by mortgages and restricted by the RUS for use on future generation and transmission construction projects.

The contractual maturities of marketable debt securities, which include U.S. government securities, foreign obligations, and corporate bonds, as of December 31, 2008, are as follows:

	Fair Value	Cost
Due within 1 year	$ 734	$ 731
Due after 1 year through 5 years	7,596	7,537
Due after 5 years through 10 years	4,429	4,367
Due after 10 years	17,090	16,652
	$29,849	$29,287

Information regarding the sale of available-for-sale marketable securities, including nuclear decommissioning trusts, for the years ended December 31, 2008 and 2007, is as follows:

	2008	2007
Proceeds from sale of securities	$86,728	$132,292
Realized (losses) gains	(3,014)	1,674

For the purposes of determining realized gains and losses, the cost of securities sold is based upon specific identification.

Securities in the portfolio are reviewed to determine whether they have been other-than-temporarily impaired. The Cooperative has recorded impairment write-downs of its investments of $8,472 in 2008 as the Cooperative cannot represent that it has the intent and ability to hold securities, until it recovers in value since that decision is outside of its sole control. In accordance with restrictions enacted by the Nuclear Regulatory Commission, the Cooperative does not control the day-to-day management of nuclear decommissioning trust fund investments. The nuclear decommissioning trust of the Cooperative is managed by independent investment managers with discretion to buy, sell, and invest to achieve the broad investment objectives set forth by the Cooperative.

Investment income on the consolidated statements of revenues and expenses is net of investment fees of approximately $368 and $381 for the years ended December 31, 2008 and 2007, respectively.

4. LINES OF CREDIT

To provide interim financing capabilities, the Cooperative has arranged committed lines of credit with availability aggregating approximately $250,000 principally through CoBank split between a long-term construction revolver and short-term operating line. Compensating balance requirements and fees relating to the lines of credit were not significant in 2008 or 2007. The long-term construction revolver line of credit expires December 2012. The short-term operating line of credit is renewable annually as to terms and conditions, and the principal balance must be paid in full within one business day of expiration, unless unilaterally extended by CoBank. The next renewal date is December 2009 with renewal expected at that time. Information regarding line of credit balances and activity for the years ended December 31, 2008 and 2007, is as follows:

	2008	**2007**
Interest rate at year-end	2.35 %	5.59 %
Committed availability at year-end:		
Long-term construction revolver	$ 185,000	$ 185,000
Short-term operating line	65,000	65,000
Total	$ 250,000	$ 250,000
Borrowings outstanding at year-end:		
Long-term construction revolver	$ 149,300	$ 82,275
Short-term operating line	36,600	31,500
Total	$ 185,900	$ 113,775
Average borrowings outstanding during year:		
Long-term construction revolver	$ 113,244	$ 40,910
Short-term operating line	16,808	25,792
Total	$ 130,052	$ 66,702

The Cooperative also allows member cooperatives to prepay their power bills and pays interest on these prepayments based on current short-term borrowing rates. Interest expense on member cooperative advances were $406 and $533 during 2008 and 2007, respectively. These amounts have been included in interest expense in the consolidated statements of revenues and expenses.

5. LONG-TERM OBLIGATIONS

Long-term obligations as of December 31, 2008 and 2007, consist of the following:

	2008	2007
Federal Financing Bank obligations, 2.6% to 6.8%	$681,112	$629,559
RUS obligations, 2%, 5%, 4.125% and grant funds	17,271	19,868
CoBank notes, 6.2% and 7.4%	41,834	44,729
City of La Crosse, Wisconsin, Pollution Control Bonds, 5.45% to 5.55%	23,605	23,605
Long-term debt	763,822	717,761
Short-term debt expected to be refinanced — CoBank, Weston 4 construction notes, 5.75% to 6.00%	-	11,507
Adjusted long-term debt	763,822	729,268
Less current maturities	32,254	29,015
Total long-term obligations	$731,568	$700,253

Quarterly principal and interest payments on the long-term obligations to the Federal Financing Bank extend through 2040. Long-term obligations to the RUS are payable in equal quarterly or monthly principal and interest installments through 2024. Payments on the CoBank 6.2% and 7.4% notes are due monthly or quarterly through 2019.

The Cooperative has obtained guarantee commitments from RUS for $280,000 to provide long-term financing for the Cooperative's share of construction costs of the Weston 4 generating station project (the Project) which was placed in service in 2008. The Cooperative has borrowed $259,387 of advances on this loan through December 31, 2008. The Cooperative had secured a $280,000 construction loan from CoBank, due October 2008, to provide interim financing for the Project. The Cooperative had borrowed $230,006 of construction advances on this loan. Through October 31, 2008, all $230,006 of construction advances were converted to RUS long-term financing, while paying off the CoBank construction loan. In addition, the Cooperative has borrowed additional funds to finance the purchase of unit trains. The outstanding CoBank construction loan is included in long-term obligations in the accompanying consolidated balance sheets. Any advances from RUS for long-term financing for the project are pursuant to the terms of the consolidated mortgage and security agreement between the Cooperative and RUS.

Approximately $7,545 of the City of La Crosse, Wisconsin, Pollution Control Bonds (the Bonds) is due in September 2014 and $16,060 is due in February 2015. On December 27, 2001, the Bonds were reissued at fixed interest rates of 5.45% for the $7,545 of Bonds due in 2014 and 5.55% for the $16,060 of Bonds due in 2015.

Substantially all of the Cooperative's assets are pledged as collateral for these obligations under the consolidated mortgage and security agreement with RUS, which extends through December 31, 2055. The Cooperative is required to maintain and has maintained certain financial ratios related to earnings and liquidity in accordance with the covenants of its loan agreements as of December 31, 2008.

Scheduled maturities of the Cooperative's long-term obligations, excluding debt to be refinanced, as of December 31, 2008, were as follows:

Years Ending December 31	
2009	$ 32,254
2010	33,954
2011	33,643
2012	32,332
2013	29,412
Thereafter	602,227
Total	$ 763,822

6. OPERATING LEASES

The Cooperative entered into two lease agreements in 2008 under which it is the lessee on an operating lease for a Caterpillar coal dozer and six rail cars. These transactions are covered in the master lease agreement and have lease terms ranging from 7 years to 15 years. At the end of the leases, the Cooperative can either purchase the equipment at fair market value, continue to lease the assets, or return the equipment to the lessor. Rent expense was $85 in 2008. The schedule of future minimum lease payments as of December 31, 2008, is as follows:

Years Ending December 31	
2009	$ 202
2010	202
2011	202
2012	202
2013	202
Thereafter	640
Total	$ 1,650

7. FINANCIAL INSTRUMENTS

The fair value of the Cooperative's financial instruments other than marketable securities and short-term borrowings, based on the rates for similar securities and present value models using current rates available as of December 31, 2008 and 2007, is estimated to be as follows:

	2008		2007	
	Recorded Value	Fair Value	Recorded Value	Fair Value
Assets:				
Economic development loans and other investments	$ 7,599	$ 7,599	$ 7,136	$ 7,136
Investments in capital term certificates of NRUCFC	9,176	9,176	9,176	9,176
Liabilities — long-term obligations	763,822	949,716	729,268	739,984

Assets and Liabilities Measured at Fair Value — On January 1, 2008, the Cooperative adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The statement applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements.

FASB Statement No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB Statement No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize observable market data in active markets for identical assets or liabilities. Level 2 inputs consist of observable market data, other than that included in Level 1, that is either directly or indirectly observable. Level 3 inputs consist of unobservable market data, which are typically based on an entity's own assumptions of what a market participant would use in pricing an asset or liability as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Cooperative's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table summarizes the Cooperative's assets and liabilities measured at fair value on a recurring basis as of December 31, 2008, aggregated by the level in the fair value hierarchy within which those measurements fall:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Nuclear decommissioning funds	$73,088	$73,088	$ -	$ -
Investments under debt agreements — marketable securities	3,150	-	3,150	-
Economic development loans and other	7,599	-	-	7,599
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	1,003	-	1,003	-
	$94,016	$73,088	$4,153	$ 16,775

The following table presents the changes in level 3 recurring fair value for the year ended December 31, 2008:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)
Economic development loans and other:	
Balance — January 1, 2008	$ 7,136
New investment and loans made	460
Loan repayments received	(653)
Patronage capital allocations	634
Reinvested net earnings	22
Balance — December 31, 2008	$ 7,599

The valuation of this security involved management's judgment, after consideration of market factors and the absence of market transparency, market liquidity, and observable inputs.

8. RETIREMENT OF CAPITAL CREDITS

The Cooperative's Board of Directors has adopted a policy of retiring capital credits allocated to members on a first-in, first-out basis. As part of an equity development strategy adopted in 2003, patronage capital retired will be limited to no greater than 2% of the total patronage capital balance as of December 31 of the prior year. Accordingly, $2,271 and $2,116 were retired in 2008 and 2007, respectively. This policy is subject to annual review and approval by the Board of Directors and the RUS, and no cash retirements are to be made, which would impair the financial condition of the Cooperative or violate any terms of its agreements. Also, beginning in 2003, the amount of nonoperating margins assigned to members each year is at the discretion of the Board of Directors. Any unassigned non-operating margins will become unallocated reserves and part of permanent equity. Patronage capital as of December 31, 2008, includes 2008 margins assignable of $6,498 and unallocated reserves of $4,778. Patronage capital as of December 31, 2007, includes 2007 margins assignable of $9,837 and unallocated reserves of $4,463.

9. COMMITMENTS AND CONTINGENCIES

The Cooperative acquired a 30% ownership share of the Weston 4 power plant near Wausau, Wisconsin, from Wisconsin Public Service Corporation (WPSC) in November 2005. The Cooperative paid WPSC $95,000 for its share of construction costs incurred to the closing date. The acquisition gives the Cooperative a 159-megawatt share of the 531-megawatt supercritical coal-fired facility for which WPSC obtained regulatory approval and began construction in October 2004. The plant was put in service in 2008. As a 30% owner, the Cooperative will be responsible for approximately $247,000 of the Weston 4 plant costs, plus interest during construction, and Dairyland's owner costs for a total estimated cost of $288,000. The Cooperative is accounting for its share of the jointly owned plant on a proportionate consolidation basis with costs of construction and related financing reported in electric plant and long-term obligations. Both the Cooperative and WPSC must provide financing for their respective portions of the Weston 4 plant costs. The Cooperative's estimated expenditures for 2009 are approximately $4,000.

The Cooperative's estimated 2009 construction program expenditures, including the Weston 4 project, are $103,026 with financing expected to be provided by borrowings and internally generated funds.

The Cooperative is a party to a number of generation, transmission, and distribution agreements, under which costs and/or revenues are recognized currently based upon the Cooperative's interpretations of the provisions of the related agreements. Differences between the estimates used in the consolidated financial statements and the final settlements are recorded in the year of settlement.

The Cooperative has entered into various coal purchase contracts with one to five year terms. The estimated commitments under these contracts as of December 31, 2008, were $75,500 in 2009, $28,767 in 2010, $7,549 in 2011, $3,786 in 2012, and $3,921 in 2013.

The Cooperative has been named as a defendant in various lawsuits and claims arising in the normal course of business. Although the outcome of these matters cannot be determined at the present time, management and legal counsel believe these actions can be successfully defended or resolved without a material effect on the consolidated financial position, results of operations, or cash flows of the Cooperative.

10. EMPLOYEE BENEFITS

Multiemployer Defined Benefit Pension Plan — Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program. Pension benefits are funded in accordance with the provisions of the program and are based on salaries, as defined, of each participant. The Employee Retirement Income Security Act of 1974, as amended by the Multiemployer Pension Plan Amendment Act of 1980, imposes certain liabilities on employers who are contributors to multiemployer plans in the event of a plan termination or an employer's withdrawal. These plans have not been terminated, nor has the Cooperative undertaken any plans to withdraw from participation. Since the program is a multiemployer plan for accounting purposes, the accumulated benefits and plan assets are not determined or allocated separately for each participating company. The Cooperative may be contingently liable for its share of the plans' unfunded vested liabilities. The Cooperative cannot obtain information from the plans' administrators to determine its share, if any, of unfunded vested benefits. Pension costs for this pension plan were $6,028 in 2008 and $5,579 in 2007.

Postretirement Health Insurance Obligation — Certain employees of the Cooperative retiring at or after age 55 are eligible to participate in a postretirement health care plan through age 65. Eligible dependents of the retired Cooperative employees are also eligible to participate in this plan through age 65. Retirees pay 100% of the premium amount for this coverage. The premium is based upon the combined medical claims experiences of all active employees and retirees. If premiums were determined based upon the medical claims experience of retirees only, the resulting premium for retirees would be higher. The difference between the premium paid by retirees and the potential actual premium amount is the basis for the postretirement benefit obligation.

The Cooperative uses a December 31 measurement date for its plan.

The postretirement health care plans are unfunded. The accumulated postretirement benefit obligation (APBO) and the amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2008 and 2007, are as follows:

	2008	2007
Amount recognized in the consolidated balance sheets:		
Total accrued qualified and nonqualified benefit obligation	$ 6,532	$ 6,259
Less current portion included in accrued expenses — other	(312)	(262)
Long-term portion	$ 6,220	$ 5,997

Amounts recognized in accumulated other comprehensive loss as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Net actuarial loss	$ 351	$ 2,518

	2008	2007
Change in benefit obligation:		
Benefit obligation — beginning of year	$ 6,151	$ 5,898
Service cost	240	235
Interest cost	389	338
Actuarial gain	-	(227)
Participant contributions	65	68
Benefits payments	(313)	(161)
Benefit obligation — end of year	$ 6,532	$ 6,151
Funded status — December 31	$ (6,532)	$ (6,151)
Accrued postretirement health insurance obligations recorded at year-end	$ (6,532)	$ (6,151)
Change in plan assets:		
Fair value of assets — beginning of year	$ -	$ -
Employer contribution	248	93
Participant contributions	65	68
Benefits paid	(313)	(161)
Fair value of assets — end of year	$ -	$ -
Components of net periodic postretirement benefit cost:		
Service cost — benefits attributed to service during the year	$ 240	$ 235
Interest cost on accrued postretirement health insurance obligation	389	338
Amortization of unrecognized actuarial loss	124	151
Net periodic postretirement benefit expense	$ 753	$ 724

For measurement purposes, a 6.2% discount rate was assumed for 2008 and 5.6% for 2007. The 2008 and 2007 annual health care cost increase assumed is 8% and 9%, respectively, decreasing gradually to 5% for 2014 and thereafter. A one percentage point increase in the assumed health care cost trend rates would increase the total of service and interest cost components by $90 and the end of year APBO by $639. A one percentage point decrease in the assumed health care cost trend rates would decrease the total of service and interest cost components by $77 and the end of year APBO by $562.

	Postretirement Health Insurance Obligation
Expected future benefit payments:	
2009	$ 312
2010	389
2011	454
2012	445
2013	482
2014–2018	2,859

Defined Contribution Plan — Dairyland has a qualified tax-deferred savings plan for eligible employees. Eligible participants may make pretax contributions, as defined, with Dairyland matching up to 2.5% of the participants' annual compensation. Contributions to this plan by Dairyland were $977 and $915 for 2008 and 2007, respectively.

Accrued Sick Leave Benefit — Certain employees are eligible to receive amounts at the time of retirement related to a discontinued sick leave policy. Eligible employees will be paid for a fixed number of sick leave hours at the wage rate in effect at retirement. The total liability was $1,621 and $1,643 as of December 31, 2008 and 2007, respectively. The cost for this sick leave benefit was $193 in 2008 and $193 in 2007.

Other Plans — The Cooperative offers key employees deferred compensation plans available through NRECA. The plans permit qualifying employees to defer a portion of their salary, until future years. The accumulated deferred compensation balance is not available to employees, until termination, retirement, or death.

All amounts of compensation deferred under the plans and all income attributable to those amounts (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Cooperative (not restricted to the payment of benefits under the plan), subject only to the claim of general creditors. Participants' rights under the plans are equal to those of general creditors of the Cooperative in an amount equal to the fair market value of the deferred account for each participant. The related assets and liabilities, totaling $1,003 and $1,303 as of December 31, 2008 and 2007, respectively, are reported at contract value, which approximates fair value.

The Cooperative also provides employees with medical insurance coverage, short-term and long-term disability, and life insurance, which are funded by employer and employee contributions. The Cooperative's costs related to these benefits was $7,135 and $7,229 for 2008 and 2007, respectively.

11. RELATED-PARTY TRANSACTIONS

The Cooperative provides electric and other services to its Class A members. The Cooperative received revenue of $264,485 and $251,336 in 2008 and 2007, respectively, for these services. The Cooperative has accounts receivable from its Class A members of $26,831 and $24,565 as of December 31, 2008 and 2007, respectively.

The Cooperative has notes payables to the Class A member of $3,259 and $5,598 as of December 31, 2008 and 2007, respectively. These notes are related to the prepayment program. Class A members have the option of paying their electric bill in advance and in turn the Cooperative pays the members interest income. The Cooperative's interest expense related to the prepayment program was $406 and $533 in 2008 and 2007, respectively.

The Cooperative has interest-bearing loan receivables from Class A members of $1,110 and $1,448 as of December 31, 2008 and 2007, respectively. These loan receivables, which are recorded as part of other assets, are related to the economic development program whereas Class A members can borrow funds from the Cooperative, which the members in turn loan to economic development projects in their service territories. These loans are typically repaid to the Cooperative over 10 years. The Cooperative recorded interest income related to the economic development program of $62 and $82 in 2008 and 2007, respectively.

12. LONG-TERM POWER AGREEMENTS

The Cooperative has a power agreement with Great River Energy (GRE) to share costs and benefits of a 380-megawatt coal-fired generating unit ("Genoa 3") located in Genoa, Wisconsin. Under the agreement, GRE will pay for 50% of the costs of operating the plant and GRE is entitled to take 50% of the output of the plant. This agreement remains in effect until the retirement of the unit from service or until the payment in full of all obligations arising from the construction of the unit, whichever is later. The Cooperative provided substantially all the financing for the construction of the unit and GRE does not guarantee any portion of any debt of the Cooperative. As a result, the Cooperative records the assets, debts, and operating costs of Genoa 3 on the consolidated financial statements. Energy charges to GRE under the agreement were $49,009 and $39,912 during 2008 and 2007, respectively.

13. ASSET RETIREMENT OBLIGATIONS

An ARO is the result of legal or contractual obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and/or the normal operation of a long-lived asset. The Cooperative determines these obligations based on an estimated asset retirement cost adjusted for inflation and projected to the estimated settlement dates and discounted using a credit-adjusted risk-free interest rate. Upon initial recognition of a liability for ARO, the Cooperative capitalizes the asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. The Cooperative allocates that asset retirement cost to expense using the straight-line method over the remaining useful life of the related long-lived asset. The accretion of the obligation is recognized over time up to the settlement date. Any future change in estimate will be recognized as an increase or a decrease in the carrying amount of the liability for an ARO and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset.

The Cooperative adopted FIN 47, *Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143*, on December 31, 2005. Upon adoption of FIN 47, the Cooperative has determined that it has AROs related to future removal and disposal of asbestos at its power plants. The Cooperative recorded an additional discounted liability of $461 in 2008 and $1,340 in 2007 related to this obligation.

The Cooperative has established a decommissioning trust to accumulate the estimated amounts necessary to decommission a nuclear power plant that the Cooperative formerly operated. The assets of this trust in the amount of $61,753 as of December 31, 2008 and $68,596 as of December 31, 2007, are outside the Cooperative's administrative control and are available solely to satisfy the future costs of decommissioning. The assets of a second fund, a supplemental reserve of $11,335 as of December 31, 2008, and $14,463 as of December 31, 2007, are designated to be used for such decommissioning efforts or for removal and temporary storage for the spent nuclear fuel pending permanent storage by the U.S. Department of Energy (DOE). These amounts are recorded as other noncurrent assets in the consolidated balance sheets. The nuclear decommissioning obligation is recorded in the consolidated balance sheets in other noncurrent liabilities.

There are no assets legally restricted for purpose of settling the ARO related to future removal and disposal of asbestos. This ARO is recorded in other noncurrent liabilities in the consolidated balance sheets.

A reconciliation of the beginning and ending aggregate carrying amount of the obligations as of December 31, 2008 and 2007, is as follows:

	2008	**2007**
Balance — beginning of year	$ 80,000	$ 81,807
Additional obligation due to change in estimated cash flows	461	1,340
Accretion in ARO	456	126
Incurred costs on decommissioning projects	(3,096)	(9,351)
Provision recorded as decommissioning liabilities	5,455	6,078
Balance — end of year	$ 83,276	$ 80,000

The Cooperative did not record a conditional ARO related to the dismantlement of the dam and drainage reservoir for the hydro generation plant at Flambeau; the restoration of land to preexisting condition at Genoa Station #3 site related to the Land Rights Permit; dismantlement of equipment and removal of generators related to the easement interest at various power plants; and the removal of transmission lines in various corridors because the Cooperative does not have sufficient information to estimate the fair value of the ARO.

14. NUCLEAR REACTOR

The La Crosse Boiling Water Nuclear Reactor (LACBWR) was voluntarily removed from service by the Cooperative effective April 30, 1987. The intent was to terminate operation of the reactor, and a possession-only license was obtained from the Nuclear Regulatory Commission in August 1987.

Under the Nuclear Waste Policy Act of 1982, the United States Department of Energy (DOE) is responsible for the storage and disposal of spent nuclear fuel removed from nuclear reactors. LACBWR will remain in safe storage status (SAFSTOR) until decommissioning of LACBWR is complete. By statute, the DOE was to have begun accepting spent fuel in January 1998, but has not yet licensed and established a repository. The Cooperative has presented a damages claim against the DOE for costs incurred from 1999 through 2006 related to spent fuel remaining at LACBWR. The lawsuit for this damages claim was brought to trial before the U.S. Court of Federal claims in July 2008. A decision in the case is expected to be rendered during 2009. The Cooperative continues to evaluate alternatives for moving the spent fuel to a temporary dry storage facility. Dismantlement of nonessential systems is proceeding on an ongoing basis. The LACBWR decommissioning plan calls for final decommissioning no later than 2025.

The estimated costs of decommissioning the nuclear generating facility are based on a decommissioning cost study. The Cooperative's policy is to provide additional funding of the nuclear decommissioning trust, as necessary, through rates or through transfers from the supplemental reserve, and with future earnings, to ensure the trust will be sufficient to cover final decommissioning expenses. The annual decommissioning expense, including SAFSTOR costs, is recovered from the Class A members. Earnings on the nuclear decommissioning funds and the equivalent provision for nuclear decommissioning costs are recorded as non-operating margins, since the plant is no longer in service.

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