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

DAIRYLAND POWER
COOPERATIVE

April 15, 2011

In reply, please
refer to LAC 2011-14166

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, 2010 and 2009. We will forward our 2010 Annual Report to you as soon as it is completed.

Sincerely,

Robert C. Mueller
Vice President and CFO

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Enclosures

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

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FSME

Deloitte.

Dairyland Power Cooperative and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2011, 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 25, 2011

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
ASSETS		
ELECTRIC PLANT:		
Plant and equipment — at original cost	$ 1,447,329	$ 1,338,382
Less accumulated depreciation	(473,876)	(446,957)
Net plant and equipment	973,453	891,425
Construction work in progress	54,016	122,756
Total electric plant	1,027,469	1,014,181
OTHER ASSETS:		
Nuclear decommissioning funds	95,324	85,091
Investments under debt agreements — marketable securities	3,204	2,621
Economic development loans and other investments	9,312	8,047
Investments in capital term certificates of National Rural Utilities Cooperative Finance Corporation	9,176	9,176
Regulatory asset — deferred losses on nuclear decommissioning funds	5,733	9,198
Investment for deferred compensation	1,357	1,199
Deferred charges	5,873	6,060
Total other assets	129,979	121,392
CURRENT ASSETS:		
Cash and cash equivalents	29,819	899
Accounts receivable:		
Energy sales — net of allowance for doubtful accounts of $10 for 2010 and $60 for 2009	41,325	38,971
Other	1,124	5,523
Inventories:		
Fossil fuels	68,787	78,375
Materials and supplies	18,199	18,585
Prepaid expenses	4,622	3,638
Total current assets	163,876	145,991
TOTAL	$ 1,321,324	$ 1,281,564

(Continued)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Member and patron equities:		
Membership fees	$ 15	$ 15
Patronage capital	159,885	149,182
Accumulated other comprehensive loss	(2,456)	(1,412)
Total member and patron equities	157,444	147,785
Long-term obligations	856,961	849,668
Total capitalization	1,014,405	997,453
OTHER LIABILITIES:		
Estimated decommissioning liabilities	79,058	76,937
Asset retirement obligations	4,077	3,227
Postretirement health insurance obligation	7,449	6,019
Accrued benefits	1,490	1,460
Deferred compensation	1,357	1,200
Obligations under capital leases	538	206
Other deferred credits	416	381
Total other liabilities	94,385	89,430
COMMITMENTS AND CONTINGENCIES (Note 10)		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	39,021	28,991
Line of credit	104,000	96,812
Advances from member cooperatives	8,037	10,182
Advances from Great River Energy	10,754	14,925
Accounts payable	27,768	27,629
Accrued expenses:		
Payroll and vacation	7,306	6,609
Interest	11,440	1,968
Property and other taxes	2,191	2,525
Other	2,017	5,040
Total current liabilities	212,534	194,681
TOTAL	$ 1,321,324	$ 1,281,564

See notes to consolidated financial statements.

(Concluded)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
UTILITY OPERATIONS:		
Operating revenues:		
Sales of electric energy	$ 396,966	$ 366,862
Other	18,518	14,352
Total operating revenues	415,484	381,214
Operating expenses:		
Fuel	143,013	143,291
Purchased and interchanged power	47,545	29,357
Other operating expenses	92,293	81,925
Depreciation and amortization	42,293	32,478
Maintenance	29,559	36,106
Property and other taxes	7,034	6,795
Total operating expenses	361,737	329,952
Operating margin before interest and other	53,747	51,262
Interest and other:		
Interest expense	43,296	40,220
Allowance for funds used in construction — equity	(524)	(1,255)
Other — net	746	3,542
Total interest and other	43,518	42,507
Operating margin	10,229	8,755
Non-operating margin	2,388	2,855
NET UTILITY MARGIN	12,617	11,610
NON-UTILITY OPERATIONS:		
Net revenues	3,259	3,071
Operating expenses	(2,715)	(2,520)
Non-utility operating income	544	551
NON-UTILITY EARNINGS	544	551
NET MARGIN AND EARNINGS	$ 13,161	$ 12,161

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBER AND PATRON EQUITIES FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	Membership Fees	Accumulated Other Comprehensive (Loss) Income	Patronage Capital	Total Member and Patron Equities	Comprehensive Income
BALANCE — December 31, 2008	$ 14	$ (2,167)	$ 139,375	$ 137,222	
Net margin and earnings	-	-	12,161	12,161	$ 12,161
Unrecognized post-retirement costs	-	112	-	112	112
Actuarial assumption changes	-	643	-	643	643
Membership fees	1	-	-	1	
Retirement of capital credits	-	-	(2,354)	(2,354)	
Total comprehensive income 2009					$ 12,916
BALANCE — December 31, 2009	15	(1,412)	149,182	147,785	
Net margin and earnings	-	-	13,161	13,161	$ 13,161
Unrecognized post-retirement costs	-	61	-	61	61
Actuarial assumption changes	-	(705)	-	(705)	(705)
Plan changes	-	(400)	-	(400)	(400)
Retirement of capital credits	-	-	(2,458)	(2,458)	
Total comprehensive income 2010					$ 12,117
BALANCE — December 31, 2010	$ 15	$ (2,456)	$ 159,885	$ 157,444	

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin and earnings	$ 13,161	$ 12,161
Adjustments to reconcile net margin and earnings to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to operating expenses	42,314	32,500
Charged through other operating elements such as fuel expense	2,489	2,463
Allowance for funds used in construction — equity	(524)	(1,255)
Changes in operating elements:		
Accounts receivable	2,045	(2,861)
Inventories	9,453	(10,263)
Prepaid expenses and other assets	(789)	(789)
Accounts payable	(1,248)	(8,959)
Accrued expenses and other liabilities	(2,791)	(8,364)
Deferred charges and other	(7)	2,130
Total adjustments	50,942	4,602
Net cash provided by operating activities	64,103	16,763
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric plant additions	(45,409)	(67,880)
Advances to nuclear decommissioning funds	(3,500)	(2,000)
Purchase of investments	(75,051)	(88,776)
Proceeds from sale of investments and economic development loans	73,040	88,652
Net cash used in investing activities	(50,920)	(70,004)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit	255,993	283,560
Repayments under line of credit	(248,805)	(372,648)
Borrowings under long-term obligations	54,493	148,176
Repayments of long-term obligations	(37,170)	(33,339)
Retirement of capital credits	(2,458)	(2,355)
Borrowings of advances from member cooperatives	210,020	231,605
Repayments of advances from member cooperatives	(216,336)	(209,757)
Net cash provided by financing activities	15,737	45,242
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,920	(7,999)
CASH AND CASH EQUIVALENTS — Beginning of year	899	8,898
CASH AND CASH EQUIVALENTS — End of year	$ 29,819	$ 899
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 36,871	$ 45,315
Electric plant additions funded through accounts payable and accrued expenses	$ 6,213	$ 7,600

See notes to 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 2010 and 2009, 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 2010 and 2009. As of January 1, 2011, GEN~SYS has been folded into Dairyland's operations.

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, 2010 and 2009. 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 3.3% and 2.7% of depreciable plant balances for 2010 and 2009, 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 (4.05% in 2010 and 5.28% in 2009) to certain electric plant additions under construction. The amount of such allowance was $1,539 in 2010 and $4,725 in 2009. The borrowed funds component of AFUDC for 2010 and 2009, was $1,015 and $3,470, respectively (representing 2.67% and 3.87% in 2010 and 2009, respectively). The equity component of AFUDC for 2010 and 2009 was $524 and $1,255, respectively, (representing 1.38% and 1.41% in 2010 and 2009, 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 2010 and 2009 are $530 and $159, 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, 2010, 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 regulatory accounting, 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, 2010, 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. In 2010 and 2009, abandoned project charges of $524 and $3,208, respectively, were expensed and included in "Other — net" on the consolidated statements of revenues and expenses. The 2009 charges include $2,862 due to the cancellation of a base load coal project.

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 4). 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 2010 and 2009, the Cooperative realized $1,880 and $2,368, 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 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, which will be amortized no later than 2019. The balance of this regulatory asset is $5,733 as of December 31, 2010.

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.

Fossil Fuels 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, such as property and equipment, 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.

Sulfur Dioxide Emission Allowances — The U.S. Environmental Protection Agency (EPA) requires power plants to hold sufficient allowances to cover emissions of sulfur dioxide. Under these requirements, the Cooperative is required to surrender one emission allowance per ton of sulfur dioxide emitted. Currently, emission allowances are recorded under the inventory method at a cost of $0. As of December 31, 2010 and 2009, the Cooperative sold $11 and $20, respectively, of emission allowances through the EPA annual mandatory auction. These amounts were recorded as revenues in non-operating margin on the consolidated statements of revenues and expenses.

Nitrogen Oxide Emission Allowances — Beginning in 2009, the EPA requires power plants to hold sufficient allowances to cover emissions of nitrogen oxide. Under these requirements, the Cooperative is required to surrender one emission allowance per ton of nitrogen oxide emitted. Actual emissions exceeded the allocation amounts thereby requiring the Cooperative to purchase additional allowances. As of December 31, 2010 and 2009, the allowances are recorded in inventory at lower of average cost or market prices at a total cost of $980 and $2,679, respectively. The obligation to EPA to meet 2010 and 2009 emissions are $619 and $2,320, respectively, and have been charged to plant expense. The transfer to EPA of the 2010 seasonal allowances occurred February 2011, and the transfer to EPA for the annual allowances is expected to occur in May 2011. The remaining allowances in inventory are available for 2011 emissions.

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 (the "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. The power cost adjustment to the class A members resulted in a credit of $647 for 2010 and additional sales billed of $3,055 for 2009. 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 Contracts — Contracts that did not meet the accounting definition of a derivative are accounted for at historical cost. The Cooperative's energy contracts that qualify as derivatives continue to be accounted for at fair value, unless those contracts meet the requirements of and have been designated as "normal purchase/normal sale." The Cooperative does not have any energy contracts that are required to be accounted for at fair value as of December 31, 2010 and 2009.

Dairyland and GEN~SYS 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 revenues and expenses.

Non-Operating Margin — The non-operating margin for the years ended December 31, 2010 and 2009, includes the following:

	2010	2009
Investment income	$ 523	$ 744
Investment income on nuclear decommissioning funds:		
Net earnings	5,078	9,856
Realized gains	1,922	1,678
Realized losses and losses due to OTTI	(2,146)	(3,899)
Provision — recorded as estimated decommissioning liabilities	(4,853)	(7,634)
Other	1,864	2,110
Non-operating margin	$ 2,388	$ 2,855

Energy and Natural Gas Sales and Purchases — In its non-utility operations, the Cooperative 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, 2010, representing $499 of the $3,259 net revenues from non-utility operations, and December 31, 2009, representing $598 of the $3,071 net revenues from non-utility operations are presented below:

	2010	2009
Energy sales	$38,421	$63,958
Natural gas sales	992	96
Energy purchases	37,933	63,370
Natural gas purchases	981	86

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 liabilities, fixed asset depreciable lives, and litigation and contingencies. Actual results could differ from those estimates.

Concentration of Risk — During fiscal years 2010 and 2009, the Cooperative derived 10% and 11%, respectively, of its revenue from a single customer.

Approximately 48% of the labor force for the Cooperative is under a collective bargaining agreement that expires January 31, 2012.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

In January 2010, the Financial Accounting Standards Board (FASB) issued a revision to Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, which requires new disclosures about transfers in and out of Level 1 and 2 fair value measurements and activity in Level 3 fair value measurements. The revision also amends subtopic 820-10 to provide clarification about the required level of disaggregation for fair value measurement disclosures of each class of assets and liabilities and disclosures about inputs and valuation techniques. The revision was effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosure about purchases, sales, issuances, and settlements in the rollforward activity of Level 3 fair value measurements, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Cooperative implemented the portions of the guidance required on January 1, 2010, and the implementation did not have a material impact on its consolidated financial statements. See Note 8 to the consolidated financial statements for further information and required disclosures.

In January 2010, the FASB issued, *Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements* (ASU No. 2010–06), which updates the codification to require new disclosures for assets and liabilities measured at fair value. The requirements include expanded disclosure of valuation methodologies for fair value measurements, transfers between levels of the fair value hierarchy, and gross rather than net presentation of certain changes in Level 3 fair value measurements. The updates to the codification contained in ASU No. 2010–06 were effective for interim and annual periods beginning after December 15, 2009, except for requirements related to gross presentation of certain changes in Level 3 fair value measurements, which are effective for interim and annual periods beginning after December 15, 2010. The Cooperative implemented the portions of the guidance required on January 1, 2010, and the implementation did not have a material impact on its consolidated financial statements. See Note 8 to the consolidated financial statements for further information and required disclosures.

3. INCOME TAXES

The Internal Revenue Service has determined that Dairyland is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Accordingly, the Cooperative's utility operations are generally exempt from federal and state income taxes, and, no provision for such taxes is recorded in the consolidated financial statements.

For its non-utility operations, the Cooperative accounts for 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 for income taxes was $0 at December 31, 2010 and 2009, primarily because 100% of the allocation of earnings is in the form of non-taxable patronage.

The Cooperative's deferred taxes as of December 31, 2010 and 2009, consist of a net deferred tax asset of $275. 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. 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, 2010, the Cooperative has federal and state NOL carryforwards of $310 and $1,501, which begin to expire in 2026 and 2013, respectively.

4. AVAILABLE-FOR-SALE INVESTMENTS

Investments under debt agreements and nuclear decommissioning funds as of December 31, 2010 and 2009, are classified as available-for-sale, recorded at fair value, and include the following:

	Fair Value	
	2010	2009
Cash and cash equivalents	$28,089	$23,821
U.S. government securities	23,878	21,877
Corporate bonds	7,703	7,761
Common stocks	36,519	32,339
Foreign obligations	2,339	1,914
	$98,528	$87,712

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 $7,991 and $5,317 on these investments as of December 31, 2010 and 2009, 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, 2010, are as follows:

	Fair Value	Cost
Due within 1 year	$ 2,073	$ 2,047
Due after 1 year through 5 years	8,560	8,482
Due after 5 years through 10 years	7,964	7,893
Due after 10 years	15,323	14,713
	$33,920	$33,135

Information regarding the sale of available-for-sale marketable securities, including nuclear decommissioning trusts, for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Proceeds from sale of securities	$72,766	$87,627
Realized gains	1,656	147

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 $1,880 in 2010 as the Cooperative cannot represent that it has the intent and ability to hold securities until they recover 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 $333 and $293 for the years ended December 31, 2010 and 2009, respectively.

5. 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 construction revolver and an operating line. The construction revolver is used to fund capital projects until permanent financing can be obtained through RUS. Some capital projects will last longer than one year, but the intent is to pay down the construction line of credit as permanent funding is received. The operating line of credit is used to meet short-term working capital requirements. Compensating balance requirements and fees relating to the lines of credit were not significant in 2010 and 2009. The construction revolver line of credit expires December 2012. The operating line of credit expires December 2012, and the principal balance must be paid in full within one business day of expiration, unless unilaterally extended by CoBank. Information regarding line of credit balances and activity for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Interest rate at year-end	2.61 %	2.24 %
Committed availability at year-end:		
Construction revolver	$ 185,000	$ 185,000
Operating line	65,000	65,000
Total	$ 250,000	$ 250,000
Borrowings outstanding at year-end:		
Construction revolver	$ 104,000	$ 86,712
Operating line	-	10,100
Total	$ 104,000	$ 96,812
Average borrowings outstanding during year:		
Construction revolver	$ 88,897	$ 108,466
Operating line	944	28,295
Total	$ 89,841	$ 136,761

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 $255 and $324 during 2010 and 2009, respectively. These amounts have been included in interest expense in the consolidated statements of revenues and expenses.

6. LONG-TERM OBLIGATIONS

Long-term obligations as of December 31, 2010 and 2009, consist of the following:

	2010	2009
Federal Financing Bank obligations, 2.6% to 6.8%	$ 822,266	$ 799,002
RUS obligations, 2%, 5%, 4.125% and grant funds	6,982	17,529
CoBank notes, 6.2%, 7.4%, and 2.9%	42,933	38,457
City of La Crosse, Wisconsin, Pollution Control Bonds, 5.45% to 5.55%	23,605	23,605
Long-term debt	895,786	878,593
Less current maturities	38,825	28,925
Total long-term obligations	$ 856,961	$ 849,668

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 monthly principal and interest installments through 2024. Payments on the CoBank 6.2%, 7.4%, and 2.9% notes are due monthly or quarterly through 2019.

On December 27, 2001, the City of La Crosse, Wisconsin, Pollution Control Bonds (the "Bonds") were reissued at fixed interest rates of 5.45% for the $7,545 of Bonds with an expected maturity date of September 2014 and 5.55% for the $16,060 of Bonds with an expected maturity date of February 2015. On February 22, 2011, the Bonds were redeemed with principal and interest payments without penalty. The Bonds will be replaced with long-term obligations in 2011.

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, 2010.

Scheduled maturities of the Cooperative's long-term obligations as of December 31, 2010, were as follows:

Years Ending December 31	
2011	$ 38,825
2012	45,873
2013	35,315
2014	41,632
2015	49,898
Thereafter	684,243
Total	$ 895,786

7. LEASES

Operating Leases — The Cooperative has entered into lease agreements under which it is the lessee on an operating lease for a Caterpillar coal dozer, six rail cars, and fleet vehicles. These transactions are covered in the master lease agreement and have lease terms ranging from 4 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 $337 and $243 in 2010 and 2009, respectively. The schedule of future minimum lease payments as of December 31, 2010, is as follows:

Years Ending December 31	
2011	$ 415
2012	412
2013	377
2014	285
2015	134
Thereafter	307
Total	$ 1,930

Capital Leases — The Cooperative entered into several capital lease agreements in 2010 for work equipment and computer equipment. The transactions are covered in the master lease agreement with a lease term of four years. At the end of the lease, the Cooperative can purchase the equipment for a bargain purchase price. The gross amount of the leases was $641. The accumulated amortization of the capital leases was $52. The principal and interest payments were $136 and $44 in 2010 and 2009, respectively. The schedule of future minimum lease payments as of December 31, 2010, is as follows:

Years Ending December 31	
2011	$ 229
2012	229
2013	216
2014	124
2015	7
Total minimum lease payments	805
Amounts representing interest	71
Present value of minimum lease payments	734
Current maturities	196
Long-term capital lease obligations	$ 538

8. 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, 2010 and 2009, is estimated to be as follows:

	2010		2009	
	Recorded Value	Fair Value	Recorded Value	Fair Value
Assets:				
Economic development loans and other investments	$ 9,312	$ 9,312	$ 8,047	$ 8,047
Investments in capital term certificates of NRUCFC	9,176	9,176	9,176	9,176
Liabilities — long-term obligations	895,786	928,970	878,593	1,064,107

Assets and Liabilities Measured at Fair Value — Generally accepted accounting principles establish a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and provides for required disclosures about fair-value measurements. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

A description of the inputs used in the valuation of assets and liabilities are as follows:

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 are 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, 2010 and 2009, aggregated by the level in the fair-value hierarchy within which those measurements fall:

		Fair-Value Measurements Using		
2010	**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	$ 95,324	$ 95,324	$ -	$ -
Investments under debt agreements — marketable securities	3,204	-	3,204	-
Economic development loans and other	9,312	-	-	9,312
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	1,357	-	1,357	-
	$ 118,373	$ 95,324	$ 4,561	$ 18,488

		Fair-Value Measurements Using		
2009	**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	$ 85,091	$ 85,091	$ -	$ -
Investments under debt agreements — marketable securities	2,621	-	2,621	-
Economic development loans and other	8,047	-	-	8,047
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	1,199	-	1,199	-
	$ 106,134	$ 85,091	$ 3,820	$ 17,223

The following table presents the changes in Level 3 recurring fair-value for the years ended December 31, 2010 and 2009:

	Fair-Value Measurement Using Significant Unobservable Inputs (Level 3)
Economic development loans and other:	
Balance — January 1, 2010	$ 8,047
New investment and loans made	821
Loan repayments received	(188)
Patronage capital allocations	623
Reinvested net earnings	9
Balance — December 31, 2010	$ 9,312

	Fair-Value Measurement Using Significant Unobservable Inputs (Level 3)
Economic development loans and other:	
Balance — January 1, 2009	$ 7,599
New investment and loans made	84
Loan repayments received	(379)
Patronage capital allocations	735
Reinvested net earnings	8
Balance — December 31, 2009	$ 8,047

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.

9. 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, $2,458 and $2,355 were retired in 2010 and 2009, 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. Since 2003, the amount of non-operating 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, 2010, includes 2010 margins assignable of $9,705 and unallocated reserves of $3,456. Patronage capital as of December 31, 2009, includes 2009 margins assignable of $7,500 and unallocated reserves of $4,661.

10. COMMITMENTS AND CONTINGENCIES

The Cooperative's estimated 2011 construction program expenditures, including Weston 4, are $53,790 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, 2010, are $104,668 in 2011, $57,213 in 2012, $60,204 in 2013, $22,450 in 2014, and $14,769 in 2015.

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.

11. 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. Pension costs for this pension plan were $9,972 in 2010 and $7,121 in 2009.

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, 2010 and 2009, are as follows:

	2010	2009
Amount recognized in the consolidated balance sheets:		
Total accrued qualified and nonqualified benefit obligation	$ 7,724	$ 6,239
Less current portion included in accrued expenses — other	(275)	(220)
Long-term portion	$ 7,449	$ 6,019
Change in benefit obligation:		
APBO — beginning of year	$ 6,239	$ 6,532
Service cost	299	252
Interest cost	347	411
Plan changes	400	-
Actuarial loss (gain)	705	(643)
Benefits paid	(266)	(313)
APBO — end of year	$ 7,724	$ 6,239
Funded status of plan — December 31	$ (7,724)	$ (6,239)
Accrued postretirement health insurance obligations recorded at year-end	$ (7,724)	$ (6,239)
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contribution	266	313
Benefits paid	(266)	(313)
Fair value of plan assets — end of year	$ -	$ -
Change in accumulated other comprehensive loss:		
Net loss at prior measurement date	$ 1,412	$ 2,167
Prior service cost	$ 400	-
Actuarial loss (gain)	705	(643)
Recognition in expense	(61)	(112)
Accumulated other comprehensive loss	$ 2,456	$ 1,412
Components of net periodic postretirement benefit cost:		
Service cost — benefits attributed to service during the year	$ 299	$ 252
Interest cost on accrued postretirement health insurance obligation	347	411
Amortization of unrecognized actuarial loss	61	112
Net periodic postretirement benefit expense	$ 707	$ 775

Employer cash contributions expected to be made to the plan during the fiscal year ending December 31, 2011 is $275. The amount of accumulated other comprehensive loss expected to be recognized during the fiscal year ending December 31, 2011 is an actuarial loss of $103 and amortization of prior service cost of $39.

For measurement purposes, a 5.66% and 6.20% discount rate was assumed for 2010 and 2009, respectively, to determine net periodic benefit cost. The 2010 and 2009 annual health care cost increase assumed is 7.99% and 7.50%, respectively, decreasing gradually to 4.50% for 2030 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 $97 and the end of year APBO by $880. A one-percentage-point decrease in the assumed health care cost trend rates would decrease the total of service and interest cost components by $80 and the end of year APBO by $756.

	Postretirement Health Insurance Obligation
Expected future benefit payments:	
2011	$ 275
2012	312
2013	367
2014	439
2015	525
2016-2019	3,525

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 $1,073 and $1,017 for 2010 and 2009, 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 $1,685 and $1,653 as of December 31, 2010 and 2009, respectively. The cost for this sick leave benefit was $287 in 2010 and $190 in 2009.

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 $1,357 and $1,200 as of December 31, 2010 and 2009, 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 were $8,848 and $8,114 for 2010 and 2009, respectively.

12. RELATED-PARTY TRANSACTIONS

The Cooperative provides electric and other services to its class A members. The Cooperative received revenue of $305,760 and $290,619 in 2010 and 2009, respectively, for these services. The Cooperative has accounts receivable from its class A members of $31,398 and $30,129 as of December 31, 2010 and 2009, respectively.

The Cooperative has notes payables to the class A member of $8,037 and $10,182 as of December 31, 2010 and 2009, 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 $255 and $324 in 2010 and 2009, respectively.

The Cooperative has interest-bearing loan receivables from class A members of $882 and $949 as of December 31, 2010 and 2009, respectively. These loan receivables, which are recorded as part of other assets, are related to the economic development program whereby 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 $44 and $50 in 2010 and 2009, respectively.

13. 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 $44,263 and $41,435 during 2010 and 2009, respectively. As of December 31, 2010, GRE had $10,754 on deposit with the Cooperative for its share of the 2010 estimated operating coal inventory at Genoa 3.

14. ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation (ARO) is the result of legal or contractual obligations associated with the retirement of a tangible long-lived asset that results 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 determined that it has AROs related to future removal and disposal of asbestos at its power plants. The Cooperative recorded an additional liability of $685 to its discounted liability in 2010 and recorded a reduction of $348 in 2009 related to this obligation. There are no assets legally restricted for the 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.

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 $77,916 as of December 31, 2010, and $71,695 as of December 31, 2009, 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 $17,408 as of December 31, 2010, and $13,396 as of December 31, 2009, 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 liabilities.

A reconciliation of the beginning and ending aggregate carrying amount of the obligations as of December 31, 2010 and 2009, is as follows:

	2010	2009
Balance — beginning of year	$ 80,164	$ 83,276
Additional (reduction to) obligation due to change in estimated cash flows	685	(348)
Accretion/depreciation in ARO	165	(175)
Incurred costs on decommissioning projects	(10,548)	(8,811)
Provision recorded as decommissioning liabilities	12,669	6,222
Balance — end of year	$ 83,135	$ 80,164

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.

15. 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 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 filed a damages claim against the United States Government in the United States Court of Federal Claims to recover its costs generally incurred after 1998 related to spent fuel remaining at LACBWR. The initial claim covered the period from 1999 through 2006. Subsequent suits are expected to be brought for the continuing costs arising from the presence of the spent fuel. The initial claim was tried in July 2008 and resulted in a damages award in December 2009 of approximately $37,600. The Government is expected to appeal the decision. No payments for damages will be received until the completion of the appeals process. None of the award damages are reflected in the consolidated balance sheets or statements of revenues and expenses. The Cooperative is currently seeking approvals to move the spent fuel to a temporary dry storage facility to be located on the LACBWR site. 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. Annual SAFSTOR costs are recorded on an as-incurred basis and are incorporated into the annual budget and rate making process. 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, and SAFSTOR costs, are 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.

* * * * * *

Deloitte.

Dairyland Power Cooperative and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2011, 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 25, 2011

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
ASSETS		
ELECTRIC PLANT:		
Plant and equipment — at original cost	$ 1,447,329	$ 1,338,382
Less accumulated depreciation	(473,876)	(446,957)
Net plant and equipment	973,453	891,425
Construction work in progress	54,016	122,756
Total electric plant	1,027,469	1,014,181
OTHER ASSETS:		
Nuclear decommissioning funds	95,324	85,091
Investments under debt agreements — marketable securities	3,204	2,621
Economic development loans and other investments	9,312	8,047
Investments in capital term certificates of National Rural Utilities Cooperative Finance Corporation	9,176	9,176
Regulatory asset — deferred losses on nuclear decommissioning funds	5,733	9,198
Investment for deferred compensation	1,357	1,199
Deferred charges	5,873	6,060
Total other assets	129,979	121,392
CURRENT ASSETS:		
Cash and cash equivalents	29,819	899
Accounts receivable:		
Energy sales — net of allowance for doubtful accounts of $10 for 2010 and $60 for 2009	41,325	38,971
Other	1,124	5,523
Inventories:		
Fossil fuels	68,787	78,375
Materials and supplies	18,199	18,585
Prepaid expenses	4,622	3,638
Total current assets	163,876	145,991
TOTAL	$ 1,321,324	$ 1,281,564

(Continued)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Member and patron equities:		
Membership fees	$ 15	$ 15
Patronage capital	159,885	149,182
Accumulated other comprehensive loss	(2,456)	(1,412)
Total member and patron equities	157,444	147,785
Long-term obligations	856,961	849,668
Total capitalization	1,014,405	997,453
OTHER LIABILITIES:		
Estimated decommissioning liabilities	79,058	76,937
Asset retirement obligations	4,077	3,227
Postretirement health insurance obligation	7,449	6,019
Accrued benefits	1,490	1,460
Deferred compensation	1,357	1,200
Obligations under capital leases	538	206
Other deferred credits	416	381
Total other liabilities	94,385	89,430
COMMITMENTS AND CONTINGENCIES (Note 10)		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	39,021	28,991
Line of credit	104,000	96,812
Advances from member cooperatives	8,037	10,182
Advances from Great River Energy	10,754	14,925
Accounts payable	27,768	27,629
Accrued expenses:		
Payroll and vacation	7,306	6,609
Interest	11,440	1,968
Property and other taxes	2,191	2,525
Other	2,017	5,040
Total current liabilities	212,534	194,681
TOTAL	$ 1,321,324	$ 1,281,564

See notes to consolidated financial statements. (Concluded)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
UTILITY OPERATIONS:		
Operating revenues:		
Sales of electric energy	$ 396,966	$ 366,862
Other	18,518	14,352
Total operating revenues	415,484	381,214
Operating expenses:		
Fuel	143,013	143,291
Purchased and interchanged power	47,545	29,357
Other operating expenses	92,293	81,925
Depreciation and amortization	42,293	32,478
Maintenance	29,559	36,106
Property and other taxes	7,034	6,795
Total operating expenses	361,737	329,952
Operating margin before interest and other	53,747	51,262
Interest and other:		
Interest expense	43,296	40,220
Allowance for funds used in construction — equity	(524)	(1,255)
Other — net	746	3,542
Total interest and other	43,518	42,507
Operating margin	10,229	8,755
Non-operating margin	2,388	2,855
NET UTILITY MARGIN	12,617	11,610
NON-UTILITY OPERATIONS:		
Net revenues	3,259	3,071
Operating expenses	(2,715)	(2,520)
Non-utility operating income	544	551
NON-UTILITY EARNINGS	544	551
NET MARGIN AND EARNINGS	$ 13,161	$ 12,161

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBER AND PATRON EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	Membership Fees	Accumulated Other Comprehensive (Loss) Income	Patronage Capital	Total Member and Patron Equities	Comprehensive Income
BALANCE — December 31, 2008	$ 14	$ (2,167)	$ 139,375	$ 137,222	
Net margin and earnings	-	-	12,161	12,161	$ 12,161
Unrecognized post-retirement costs	-	112	-	112	112
Actuarial assumption changes	-	643	-	643	643
Membership fees	1	-	-	1	
Retirement of capital credits	-	-	(2,354)	(2,354)	
Total comprehensive income 2009					$ 12,916
BALANCE — December 31, 2009	15	(1,412)	149,182	147,785	
Net margin and earnings	-	-	13,161	13,161	$ 13,161
Unrecognized post-retirement costs	-	61	-	61	61
Actuarial assumption changes	-	(705)	-	(705)	(705)
Plan changes	-	(400)	-	(400)	(400)
Retirement of capital credits	-	-	(2,458)	(2,458)	
Total comprehensive income 2010					$ 12,117
BALANCE — December 31, 2010	$ 15	$ (2,456)	$ 159,885	$ 157,444	

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin and earnings	$ 13,161	$ 12,161
Adjustments to reconcile net margin and earnings to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to operating expenses	42,314	32,500
Charged through other operating elements such as fuel expense	2,489	2,463
Allowance for funds used in construction — equity	(524)	(1,255)
Changes in operating elements:		
Accounts receivable	2,045	(2,861)
Inventories	9,453	(10,263)
Prepaid expenses and other assets	(789)	(789)
Accounts payable	(1,248)	(8,959)
Accrued expenses and other liabilities	(2,791)	(8,364)
Deferred charges and other	(7)	2,130
Total adjustments	50,942	4,602
Net cash provided by operating activities	64,103	16,763
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric plant additions	(45,409)	(67,880)
Advances to nuclear decommissioning funds	(3,500)	(2,000)
Purchase of investments	(75,051)	(88,776)
Proceeds from sale of investments and economic development loans	73,040	88,652
Net cash used in investing activities	(50,920)	(70,004)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit	255,993	283,560
Repayments under line of credit	(248,805)	(372,648)
Borrowings under long-term obligations	54,493	148,176
Repayments of long-term obligations	(37,170)	(33,339)
Retirement of capital credits	(2,458)	(2,355)
Borrowings of advances from member cooperatives	210,020	231,605
Repayments of advances from member cooperatives	(216,336)	(209,757)
Net cash provided by financing activities	15,737	45,242
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,920	(7,999)
CASH AND CASH EQUIVALENTS — Beginning of year	899	8,898
CASH AND CASH EQUIVALENTS — End of year	$ 29,819	$ 899
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 36,871	$ 45,315
Electric plant additions funded through accounts payable and accrued expenses	$ 6,213	$ 7,600

See notes to 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 2010 and 2009, 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 2010 and 2009. As of January 1, 2011, GEN~SYS has been folded into Dairyland's operations.

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, 2010 and 2009. 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 3.3% and 2.7% of depreciable plant balances for 2010 and 2009, 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 (4.05% in 2010 and 5.28% in 2009) to certain electric plant additions under construction. The amount of such allowance was $1,539 in 2010 and $4,725 in 2009. The borrowed funds component of AFUDC for 2010 and 2009, was $1,015 and $3,470, respectively (representing 2.67% and 3.87% in 2010 and 2009, respectively). The equity component of AFUDC for 2010 and 2009 was $524 and $1,255, respectively, (representing 1.38% and 1.41% in 2010 and 2009, 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 2010 and 2009 are $530 and $159, 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, 2010, 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 regulatory accounting, 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, 2010, 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. In 2010 and 2009, abandoned project charges of $524 and $3,208, respectively, were expensed and included in "Other — net" on the consolidated statements of revenues and expenses. The 2009 charges include $2,862 due to the cancellation of a base load coal project.

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 4). 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 2010 and 2009, the Cooperative realized $1,880 and $2,368, 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 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, which will be amortized no later than 2019. The balance of this regulatory asset is $5,733 as of December 31, 2010.

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.

Fossil Fuels 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, such as property and equipment, 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.

Sulfur Dioxide Emission Allowances — The U.S. Environmental Protection Agency (EPA) requires power plants to hold sufficient allowances to cover emissions of sulfur dioxide. Under these requirements, the Cooperative is required to surrender one emission allowance per ton of sulfur dioxide emitted. Currently, emission allowances are recorded under the inventory method at a cost of $0. As of December 31, 2010 and 2009, the Cooperative sold $11 and $20, respectively, of emission allowances through the EPA annual mandatory auction. These amounts were recorded as revenues in non-operating margin on the consolidated statements of revenues and expenses.

Nitrogen Oxide Emission Allowances — Beginning in 2009, the EPA requires power plants to hold sufficient allowances to cover emissions of nitrogen oxide. Under these requirements, the Cooperative is required to surrender one emission allowance per ton of nitrogen oxide emitted. Actual emissions exceeded the allocation amounts thereby requiring the Cooperative to purchase additional allowances. As of December 31, 2010 and 2009, the allowances are recorded in inventory at lower of average cost or market prices at a total cost of $980 and $2,679, respectively. The obligation to EPA to meet 2010 and 2009 emissions are $619 and $2,320, respectively, and have been charged to plant expense. The transfer to EPA of the 2010 seasonal allowances occurred February 2011, and the transfer to EPA for the annual allowances is expected to occur in May 2011. The remaining allowances in inventory are available for 2011 emissions.

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 (the "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. The power cost adjustment to the class A members resulted in a credit of $647 for 2010 and additional sales billed of $3,055 for 2009. 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 Contracts — Contracts that did not meet the accounting definition of a derivative are accounted for at historical cost. The Cooperative's energy contracts that qualify as derivatives continue to be accounted for at fair value, unless those contracts meet the requirements of and have been designated as "normal purchase/normal sale." The Cooperative does not have any energy contracts that are required to be accounted for at fair value as of December 31, 2010 and 2009.

Dairyland and GEN~SYS 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 revenues and expenses.

Non-Operating Margin — The non-operating margin for the years ended December 31, 2010 and 2009, includes the following:

	2010	2009
Investment income	$ 523	$ 744
Investment income on nuclear decommissioning funds:		
Net earnings	5,078	9,856
Realized gains	1,922	1,678
Realized losses and losses due to OTTI	(2,146)	(3,899)
Provision — recorded as estimated decommissioning liabilities	(4,853)	(7,634)
Other	1,864	2,110
Non-operating margin	$ 2,388	$ 2,855

Energy and Natural Gas Sales and Purchases — In its non-utility operations, the Cooperative 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, 2010, representing $499 of the $3,259 net revenues from non-utility operations, and December 31, 2009, representing $598 of the $3,071 net revenues from non-utility operations are presented below:

	2010	2009
Energy sales	$ 38,421	$ 63,958
Natural gas sales	992	96
Energy purchases	37,933	63,370
Natural gas purchases	981	86

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 liabilities, fixed asset depreciable lives, and litigation and contingencies. Actual results could differ from those estimates.

Concentration of Risk — During fiscal years 2010 and 2009, the Cooperative derived 10% and 11%, respectively, of its revenue from a single customer.

Approximately 48% of the labor force for the Cooperative is under a collective bargaining agreement that expires January 31, 2012.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

In January 2010, the Financial Accounting Standards Board (FASB) issued a revision to Accounting Standards Codification 820, *Fair Value Measurements and Disclosures,* which requires new disclosures about transfers in and out of Level 1 and 2 fair value measurements and activity in Level 3 fair value measurements. The revision also amends subtopic 820-10 to provide clarification about the required level of disaggregation for fair value measurement disclosures of each class of assets and liabilities and disclosures about inputs and valuation techniques. The revision was effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosure about purchases, sales, issuances, and settlements in the rollforward activity of Level 3 fair value measurements, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Cooperative implemented the portions of the guidance required on January 1, 2010, and the implementation did not have a material impact on its consolidated financial statements. See Note 8 to the consolidated financial statements for further information and required disclosures.

In January 2010, the FASB issued, *Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements* (ASU No. 2010–06), which updates the codification to require new disclosures for assets and liabilities measured at fair value. The requirements include expanded disclosure of valuation methodologies for fair value measurements, transfers between levels of the fair value hierarchy, and gross rather than net presentation of certain changes in Level 3 fair value measurements. The updates to the codification contained in ASU No. 2010–06 were effective for interim and annual periods beginning after December 15, 2009, except for requirements related to gross presentation of certain changes in Level 3 fair value measurements, which are effective for interim and annual periods beginning after December 15, 2010. The Cooperative implemented the portions of the guidance required on January 1, 2010, and the implementation did not have a material impact on its consolidated financial statements. See Note 8 to the consolidated financial statements for further information and required disclosures.

3. INCOME TAXES

The Internal Revenue Service has determined that Dairyland is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Accordingly, the Cooperative's utility operations are generally exempt from federal and state income taxes, and, no provision for such taxes is recorded in the consolidated financial statements.

For its non-utility operations, the Cooperative accounts for 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 for income taxes was $0 at December 31, 2010 and 2009, primarily because 100% of the allocation of earnings is in the form of non-taxable patronage.

The Cooperative's deferred taxes as of December 31, 2010 and 2009, consist of a net deferred tax asset of $275. 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. 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, 2010, the Cooperative has federal and state NOL carryforwards of $310 and $1,501, which begin to expire in 2026 and 2013, respectively.

4. AVAILABLE-FOR-SALE INVESTMENTS

Investments under debt agreements and nuclear decommissioning funds as of December 31, 2010 and 2009, are classified as available-for-sale, recorded at fair value, and include the following:

	Fair Value	
	2010	2009
Cash and cash equivalents	$ 28,089	$ 23,821
U.S. government securities	23,878	21,877
Corporate bonds	7,703	7,761
Common stocks	36,519	32,339
Foreign obligations	2,339	1,914
	$ 98,528	$ 87,712

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 $7,991 and $5,317 on these investments as of December 31, 2010 and 2009, 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, 2010, are as follows:

	Fair Value	Cost
Due within 1 year	$ 2,073	$ 2,047
Due after 1 year through 5 years	8,560	8,482
Due after 5 years through 10 years	7,964	7,893
Due after 10 years	15,323	14,713
	$ 33,920	$ 33,135

Information regarding the sale of available-for-sale marketable securities, including nuclear decommissioning trusts, for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Proceeds from sale of securities	$ 72,766	$ 87,627
Realized gains	1,656	147

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 $1,880 in 2010 as the Cooperative cannot represent that it has the intent and ability to hold securities until they recover 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 $333 and $293 for the years ended December 31, 2010 and 2009, respectively.

5. 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 construction revolver and an operating line. The construction revolver is used to fund capital projects until permanent financing can be obtained through RUS. Some capital projects will last longer than one year, but the intent is to pay down the construction line of credit as permanent funding is received. The operating line of credit is used to meet short-term working capital requirements. Compensating balance requirements and fees relating to the lines of credit were not significant in 2010 and 2009. The construction revolver line of credit expires December 2012. The operating line of credit expires December 2012, and the principal balance must be paid in full within one business day of expiration, unless unilaterally extended by CoBank. Information regarding line of credit balances and activity for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Interest rate at year-end	2.61 %	2.24 %
Committed availability at year-end:		
Construction revolver	$ 185,000	$ 185,000
Operating line	65,000	65,000
Total	$ 250,000	$ 250,000
Borrowings outstanding at year-end:		
Construction revolver	$ 104,000	$ 86,712
Operating line	-	10,100
Total	$ 104,000	$ 96,812
Average borrowings outstanding during year:		
Construction revolver	$ 88,897	$ 108,466
Operating line	944	28,295
Total	$ 89,841	$ 136,761

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 $255 and $324 during 2010 and 2009, respectively. These amounts have been included in interest expense in the consolidated statements of revenues and expenses.

6. LONG-TERM OBLIGATIONS

Long-term obligations as of December 31, 2010 and 2009, consist of the following:

	2010	2009
Federal Financing Bank obligations, 2.6% to 6.8%	$ 822,266	$ 799,002
RUS obligations, 2%, 5%, 4.125% and grant funds	6,982	17,529
CoBank notes, 6.2%, 7.4%, and 2.9%	42,933	38,457
City of La Crosse, Wisconsin, Pollution Control Bonds, 5.45% to 5.55%	23,605	23,605
Long-term debt	895,786	878,593
Less current maturities	38,825	28,925
Total long-term obligations	$ 856,961	$ 849,668

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 monthly principal and interest installments through 2024. Payments on the CoBank 6.2%, 7.4%, and 2.9% notes are due monthly or quarterly through 2019.

On December 27, 2001, the City of La Crosse, Wisconsin, Pollution Control Bonds (the "Bonds") were reissued at fixed interest rates of 5.45% for the $7,545 of Bonds with an expected maturity date of September 2014 and 5.55% for the $16,060 of Bonds with an expected maturity date of February 2015. On February 22, 2011, the Bonds were redeemed with principal and interest payments without penalty. The Bonds will be replaced with long-term obligations in 2011.

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, 2010.

Scheduled maturities of the Cooperative's long-term obligations as of December 31, 2010, were as follows:

Years Ending December 31	
2011	$ 38,825
2012	45,873
2013	35,315
2014	41,632
2015	49,898
Thereafter	684,243
Total	$ 895,786

7. LEASES

Operating Leases — The Cooperative has entered into lease agreements under which it is the lessee on an operating lease for a Caterpillar coal dozer, six rail cars, and fleet vehicles. These transactions are covered in the master lease agreement and have lease terms ranging from 4 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 $337 and $243 in 2010 and 2009, respectively. The schedule of future minimum lease payments as of December 31, 2010, is as follows:

Years Ending December 31	
2011	$ 415
2012	412
2013	377
2014	285
2015	134
Thereafter	307
Total	$ 1,930

Capital Leases — The Cooperative entered into several capital lease agreements in 2010 for work equipment and computer equipment. The transactions are covered in the master lease agreement with a lease term of four years. At the end of the lease, the Cooperative can purchase the equipment for a bargain purchase price. The gross amount of the leases was $641. The accumulated amortization of the capital leases was $52. The principal and interest payments were $136 and $44 in 2010 and 2009, respectively. The schedule of future minimum lease payments as of December 31, 2010, is as follows:

Years Ending December 31	
2011	$ 229
2012	229
2013	216
2014	124
2015	7
Total minimum lease payments	805
Amounts representing interest	71
Present value of minimum lease payments	734
Current maturities	196
Long-term capital lease obligations	$ 538

8. 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, 2010 and 2009, is estimated to be as follows:

	2010		2009	
	Recorded Value	Fair Value	Recorded Value	Fair Value
Assets:				
Economic development loans and other investments	$ 9,312	$ 9,312	$ 8,047	$ 8,047
Investments in capital term certificates of NRUCFC	9,176	9,176	9,176	9,176
Liabilities — long-term obligations	895,786	928,970	878,593	1,064,107

Assets and Liabilities Measured at Fair Value — Generally accepted accounting principles establish a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and provides for required disclosures about fair-value measurements. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

A description of the inputs used in the valuation of assets and liabilities are as follows:

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 are 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, 2010 and 2009, aggregated by the level in the fair-value hierarchy within which those measurements fall:

2010	Fair-Value	Fair-Value Measurements Using: 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	$ 95,324	$ 95,324	$ -	$ -
Investments under debt agreements — marketable securities	3,204	-	3,204	-
Economic development loans and other	9,312	-	-	9,312
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	1,357	-	1,357	-
	$ 118,373	$ 95,324	$ 4,561	$ 18,488

2009	Fair-Value	Fair-Value Measurements Using: 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	$ 85,091	$ 85,091	$ -	$ -
Investments under debt agreements — marketable securities	2,621	-	2,621	-
Economic development loans and other	8,047	-	-	8,047
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	1,199	-	1,199	-
	$ 106,134	$ 85,091	$ 3,820	$ 17,223

The following table presents the changes in Level 3 recurring fair-value for the years ended December 31, 2010 and 2009:

	Fair-Value Measurement Using Significant Unobservable Inputs (Level 3)
Economic development loans and other:	
Balance — January 1, 2010	$8,047
New investment and loans made	821
Loan repayments received	(188)
Patronage capital allocations	623
Reinvested net earnings	9
Balance — December 31, 2010	$9,312

	Fair-Value Measurement Using Significant Unobservable Inputs (Level 3)
Economic development loans and other:	
Balance — January 1, 2009	$7,599
New investment and loans made	84
Loan repayments received	(379)
Patronage capital allocations	735
Reinvested net earnings	8
Balance — December 31, 2009	$8,047

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.

9. 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, $2,458 and $2,355 were retired in 2010 and 2009, 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. Since 2003, the amount of non-operating 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, 2010, includes 2010 margins assignable of $9,705 and unallocated reserves of $3,456. Patronage capital as of December 31, 2009, includes 2009 margins assignable of $7,500 and unallocated reserves of $4,661.

10. COMMITMENTS AND CONTINGENCIES

The Cooperative's estimated 2011 construction program expenditures, including Weston 4, are $53,790 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, 2010, are $104,668 in 2011, $57,213 in 2012, $60,204 in 2013, $22,450 in 2014, and $14,769 in 2015.

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.

11. 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. Pension costs for this pension plan were $9,972 in 2010 and $7,121 in 2009.

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, 2010 and 2009, are as follows:

	2010	2009
Amount recognized in the consolidated balance sheets:		
Total accrued qualified and nonqualified benefit obligation	$ 7,724	$ 6,239
Less current portion included in accrued expenses — other	(275)	(220)
Long-term portion	$ 7,449	$ 6,019
Change in benefit obligation:		
APBO — beginning of year	$ 6,239	$ 6,532
Service cost	299	252
Interest cost	347	411
Plan changes	400	-
Actuarial loss (gain)	705	(643)
Benefits paid	(266)	(313)
APBO — end of year	$ 7,724	$ 6,239
Funded status of plan — December 31	$ (7,724)	$ (6,239)
Accrued postretirement health insurance obligations recorded at year-end	$ (7,724)	$ (6,239)
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contribution	266	313
Benefits paid	(266)	(313)
Fair value of plan assets — end of year	$ -	$ -
Change in accumulated other comprehensive loss:		
Net loss at prior measurement date	$ 1,412	$ 2,167
Prior service cost	$ 400	-
Actuarial loss (gain)	705	(643)
Recognition in expense	(61)	(112)
Accumulated other comprehensive loss	$ 2,456	$ 1,412
Components of net periodic postretirement benefit cost:		
Service cost — benefits attributed to service during the year	$ 299	$ 252
Interest cost on accrued postretirement health insurance obligation	347	411
Amortization of unrecognized actuarial loss	61	112
Net periodic postretirement benefit expense	$ 707	$ 775

Employer cash contributions expected to be made to the plan during the fiscal year ending December 31, 2011 is $275. The amount of accumulated other comprehensive loss expected to be recognized during the fiscal year ending December 31, 2011 is an actuarial loss of $103 and amortization of prior service cost of $39.

For measurement purposes, a 5.66% and 6.20% discount rate was assumed for 2010 and 2009, respectively, to determine net periodic benefit cost. The 2010 and 2009 annual health care cost increase assumed is 7.99% and 7.50%, respectively, decreasing gradually to 4.50% for 2030 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 $97 and the end of year APBO by $880. A one-percentage-point decrease in the assumed health care cost trend rates would decrease the total of service and interest cost components by $80 and the end of year APBO by $756.

	Postretirement Health Insurance Obligation
Expected future benefit payments:	
2011	$ 275
2012	312
2013	367
2014	439
2015	525
2016-2019	3,525

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 $1,073 and $1,017 for 2010 and 2009, 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 $1,685 and $1,653 as of December 31, 2010 and 2009, respectively. The cost for this sick leave benefit was $287 in 2010 and $190 in 2009.

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 $1,357 and $1,200 as of December 31, 2010 and 2009, 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 were $8,848 and $8,114 for 2010 and 2009, respectively.

12. RELATED-PARTY TRANSACTIONS

The Cooperative provides electric and other services to its class A members. The Cooperative received revenue of $305,760 and $290,619 in 2010 and 2009, respectively, for these services. The Cooperative has accounts receivable from its class A members of $31,398 and $30,129 as of December 31, 2010 and 2009, respectively.

The Cooperative has notes payables to the class A member of $8,037 and $10,182 as of December 31, 2010 and 2009, 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 $255 and $324 in 2010 and 2009, respectively.

The Cooperative has interest-bearing loan receivables from class A members of $882 and $949 as of December 31, 2010 and 2009, respectively. These loan receivables, which are recorded as part of other assets, are related to the economic development program whereby 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 $44 and $50 in 2010 and 2009, respectively.

13. 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 $44,263 and $41,435 during 2010 and 2009, respectively. As of December 31, 2010, GRE had $10,754 on deposit with the Cooperative for its share of the 2010 estimated operating coal inventory at Genoa 3.

14. ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation (ARO) is the result of legal or contractual obligations associated with the retirement of a tangible long-lived asset that results 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 determined that it has AROs related to future removal and disposal of asbestos at its power plants. The Cooperative recorded an additional liability of $685 to its discounted liability in 2010 and recorded a reduction of $348 in 2009 related to this obligation. There are no assets legally restricted for the 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.

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 $77,916 as of December 31, 2010, and $71,695 as of December 31, 2009, 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 $17,408 as of December 31, 2010, and $13,396 as of December 31, 2009, 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 liabilities.

A reconciliation of the beginning and ending aggregate carrying amount of the obligations as of December 31, 2010 and 2009, is as follows:

	2010	2009
Balance — beginning of year	$ 80,164	$ 83,276
Additional (reduction to) obligation due to change in estimated cash flows	685	(348)
Accretion/depreciation in ARO	165	(175)
Incurred costs on decommissioning projects	(10,548)	(8,811)
Provision recorded as decommissioning liabilities	12,669	6,222
Balance — end of year	$ 83,135	$ 80,164

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.

15. 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 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 filed a damages claim against the United States Government in the United States Court of Federal Claims to recover its costs generally incurred after 1998 related to spent fuel remaining at LACBWR. The initial claim covered the period from 1999 through 2006. Subsequent suits are expected to be brought for the continuing costs arising from the presence of the spent fuel. The initial claim was tried in July 2008 and resulted in a damages award in December 2009 of approximately $37,600. The Government is expected to appeal the decision. No payments for damages will be received until the completion of the appeals process. None of the award damages are reflected in the consolidated balance sheets or statements of revenues and expenses. The Cooperative is currently seeking approvals to move the spent fuel to a temporary dry storage facility to be located on the LACBWR site. 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. Annual SAFSTOR costs are recorded on an as-incurred basis and are incorporated into the annual budget and rate making process. 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, and SAFSTOR costs, are 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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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, 2010 and 2009, 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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2011, 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 25, 2011

Dairyland Power Cooperative and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2010 and 2009, and Independent Auditors' Report

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
ASSETS		
ELECTRIC PLANT:		
Plant and equipment — at original cost	$1,447,329	$1,338,382
Less accumulated depreciation	(473,876)	(446,957)
Net plant and equipment	973,453	891,425
Construction work in progress	54,016	122,756
Total electric plant	1,027,469	1,014,181
OTHER ASSETS:		
Nuclear decommissioning funds	95,324	85,091
Investments under debt agreements — marketable securities	3,204	2,621
Economic development loans and other investments	9,312	8,047
Investments in capital term certificates of National Rural Utilities Cooperative Finance Corporation	9,176	9,176
Regulatory asset — deferred losses on nuclear decommissioning funds	5,733	9,198
Investment for deferred compensation	1,357	1,199
Deferred charges	5,873	6,060
Total other assets	129,979	121,392
CURRENT ASSETS:		
Cash and cash equivalents	29,819	899
Accounts receivable:		
Energy sales — net of allowance for doubtful accounts of $10 for 2010 and $60 for 2009	41,325	38,971
Other	1,124	5,523
Inventories:		
Fossil fuels	68,787	78,375
Materials and supplies	18,199	18,585
Prepaid expenses	4,622	3,638
Total current assets	163,876	145,991
TOTAL	$1,321,324	$1,281,564

(Continued)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Member and patron equities:		
Membership fees	$ 15	$ 15
Patronage capital	159,885	149,182
Accumulated other comprehensive loss	(2,456)	(1,412)
Total member and patron equities	157,444	147,785
Long-term obligations	856,961	849,668
Total capitalization	1,014,405	997,453
OTHER LIABILITIES:		
Estimated decommissioning liabilities	79,058	76,937
Asset retirement obligations	4,077	3,227
Postretirement health insurance obligation	7,449	6,019
Accrued benefits	1,490	1,460
Deferred compensation	1,357	1,200
Obligations under capital leases	538	206
Other deferred credits	416	381
Total other liabilities	94,385	89,430
COMMITMENTS AND CONTINGENCIES (Note 10)		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	39,021	28,991
Line of credit	104,000	96,812
Advances from member cooperatives	8,037	10,182
Advances from Great River Energy	10,754	14,925
Accounts payable	27,768	27,629
Accrued expenses:		
Payroll and vacation	7,306	6,609
Interest	11,440	1,968
Property and other taxes	2,191	2,525
Other	2,017	5,040
Total current liabilities	212,534	194,681
TOTAL	$ 1,321,324	$ 1,281,564

See notes to consolidated financial statements.

(Concluded)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
UTILITY OPERATIONS:		
Operating revenues:		
Sales of electric energy	$396,966	$366,862
Other	18,518	14,352
Total operating revenues	415,484	381,214
Operating expenses:		
Fuel	143,013	143,291
Purchased and interchanged power	47,545	29,357
Other operating expenses	92,293	81,925
Depreciation and amortization	42,293	32,478
Maintenance	29,559	36,106
Property and other taxes	7,034	6,795
Total operating expenses	361,737	329,952
Operating margin before interest and other	53,747	51,262
Interest and other:		
Interest expense	43,296	40,220
Allowance for funds used in construction — equity	(524)	(1,255)
Other — net	746	3,542
Total interest and other	43,518	42,507
Operating margin	10,229	8,755
Non-operating margin	2,388	2,855
NET UTILITY MARGIN	12,617	11,610
NON-UTILITY OPERATIONS:		
Net revenues	3,259	3,071
Operating expenses	(2,715)	(2,520)
Non-utility operating income	544	551
NON-UTILITY EARNINGS	544	551
NET MARGIN AND EARNINGS	$ 13,161	$ 12,161

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBER AND PATRON EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	Membership Fees	Accumulated Other Comprehensive (Loss) Income	Patronage Capital	Total Member and Patron Equities	Comprehensive Income
BALANCE — December 31, 2008	$ 14	$ (2,167)	$ 139,375	$ 137,222	
Net margin and earnings	-	-	12,161	12,161	$ 12,161
Unrecognized post-retirement costs	-	112	-	112	112
Actuarial assumption changes	-	643	-	643	643
Membership fees	1	-	-	1	
Retirement of capital credits	-	-	(2,354)	(2,354)	
Total comprehensive income 2009					$ 12,916
BALANCE — December 31, 2009	15	(1,412)	149,182	147,785	
Net margin and earnings	-	-	13,161	13,161	$ 13,161
Unrecognized post-retirement costs	-	61	-	61	61
Actuarial assumption changes	-	(705)	-	(705)	(705)
Plan changes	-	(400)	-	(400)	(400)
Retirement of capital credits	-	-	(2,458)	(2,458)	
Total comprehensive income 2010					$ 12,117
BALANCE — December 31, 2010	$ 15	$ (2,456)	$ 159,885	$ 157,444	

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin and earnings	$ 13,161	$ 12,161
Adjustments to reconcile net margin and earnings to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to operating expenses	42,314	32,500
Charged through other operating elements such as fuel expense	2,489	2,463
Allowance for funds used in construction — equity	(524)	(1,255)
Changes in operating elements:		
Accounts receivable	2,045	(2,861)
Inventories	9,453	(10,263)
Prepaid expenses and other assets	(789)	(789)
Accounts payable	(1,248)	(8,959)
Accrued expenses and other liabilities	(2,791)	(8,364)
Deferred charges and other	(7)	2,130
Total adjustments	50,942	4,602
Net cash provided by operating activities	64,103	16,763
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric plant additions	(45,409)	(67,880)
Advances to nuclear decommissioning funds	(3,500)	(2,000)
Purchase of investments	(75,051)	(88,776)
Proceeds from sale of investments and economic development loans	73,040	88,652
Net cash used in investing activities	(50,920)	(70,004)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit	255,993	283,560
Repayments under line of credit	(248,805)	(372,648)
Borrowings under long-term obligations	54,493	148,176
Repayments of long-term obligations	(37,170)	(33,339)
Retirement of capital credits	(2,458)	(2,355)
Borrowings of advances from member cooperatives	210,020	231,605
Repayments of advances from member cooperatives	(216,336)	(209,757)
Net cash provided by financing activities	15,737	45,242
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,920	(7,999)
CASH AND CASH EQUIVALENTS — Beginning of year	899	8,898
CASH AND CASH EQUIVALENTS — End of year	$ 29,819	$ 899
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 36,871	$ 45,315
Electric plant additions funded through accounts payable and accrued expenses	$ 6,213	$ 7,600

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (All dollar amounts in thousands)

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 2010 and 2009, 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 2010 and 2009. As of January 1, 2011, GEN~SYS has been folded into Dairyland's operations.

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, 2010 and 2009. 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 3.3% and 2.7% of depreciable plant balances for 2010 and 2009, 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 (4.05% in 2010 and 5.28% in 2009) to certain electric plant additions under construction. The amount of such allowance was $1,539 in 2010 and $4,725 in 2009. The borrowed funds component of AFUDC for 2010 and 2009, was $1,015 and $3,470, respectively (representing 2.67% and 3.87% in 2010 and 2009, respectively). The equity component of AFUDC for 2010 and 2009 was $524 and $1,255, respectively, (representing 1.38% and 1.41% in 2010 and 2009, 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 2010 and 2009 are $530 and $159, 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, 2010, 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 regulatory accounting, 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, 2010, 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. In 2010 and 2009, abandoned project charges of $524 and $3,208, respectively, were expensed and included in "Other — net" on the consolidated statements of revenues and expenses. The 2009 charges include $2,862 due to the cancellation of a base load coal project.

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 4). 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 2010 and 2009, the Cooperative realized $1,880 and $2,368, 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 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, which will be amortized no later than 2019. The balance of this regulatory asset is $5,733 as of December 31, 2010.

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.

Fossil Fuels 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, such as property and equipment, 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.

Sulfur Dioxide Emission Allowances — The U.S. Environmental Protection Agency (EPA) requires power plants to hold sufficient allowances to cover emissions of sulfur dioxide. Under these requirements, the Cooperative is required to surrender one emission allowance per ton of sulfur dioxide emitted. Currently, emission allowances are recorded under the inventory method at a cost of $0. As of December 31, 2010 and 2009, the Cooperative sold $11 and $20, respectively, of emission allowances through the EPA annual mandatory auction. These amounts were recorded as revenues in non-operating margin on the consolidated statements of revenues and expenses.

Nitrogen Oxide Emission Allowances — Beginning in 2009, the EPA requires power plants to hold sufficient allowances to cover emissions of nitrogen oxide. Under these requirements, the Cooperative is required to surrender one emission allowance per ton of nitrogen oxide emitted. Actual emissions exceeded the allocation amounts thereby requiring the Cooperative to purchase additional allowances. As of December 31, 2010 and 2009, the allowances are recorded in inventory at lower of average cost or market prices at a total cost of $980 and $2,679, respectively. The obligation to EPA to meet 2010 and 2009 emissions are $619 and $2,320, respectively, and have been charged to plant expense. The transfer to EPA of the 2010 seasonal allowances occurred February 2011, and the transfer to EPA for the annual allowances is expected to occur in May 2011. The remaining allowances in inventory are available for 2011 emissions.

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 (the "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. The power cost adjustment to the class A members resulted in a credit of $647 for 2010 and additional sales billed of $3,055 for 2009. 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 Contracts — Contracts that did not meet the accounting definition of a derivative are accounted for at historical cost. The Cooperative's energy contracts that qualify as derivatives continue to be accounted for at fair value, unless those contracts meet the requirements of and have been designated as "normal purchase/normal sale." The Cooperative does not have any energy contracts that are required to be accounted for at fair value as of December 31, 2010 and 2009.

Dairyland and GEN~SYS 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 revenues and expenses.

Non-Operating Margin — The non-operating margin for the years ended December 31, 2010 and 2009, includes the following:

	2010	2009
Investment income	$ 523	$ 744
Investment income on nuclear decommissioning funds:		
Net earnings	5,078	9,856
Realized gains	1,922	1,678
Realized losses and losses due to OTTI	(2,146)	(3,899)
Provision — recorded as estimated decommissioning liabilities	(4,853)	(7,634)
Other	1,864	2,110
Non-operating margin	$ 2,388	$ 2,855

Energy and Natural Gas Sales and Purchases — In its non-utility operations, the Cooperative 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, 2010, representing $499 of the $3,259 net revenues from non-utility operations, and December 31, 2009, representing $598 of the $3,071 net revenues from non-utility operations are presented below:

	2010	2009
Energy sales	$38,421	$63,958
Natural gas sales	992	96
Energy purchases	37,933	63,370
Natural gas purchases	981	86

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 liabilities, fixed asset depreciable lives, and litigation and contingencies. Actual results could differ from those estimates.

Concentration of Risk — During fiscal years 2010 and 2009, the Cooperative derived 10% and 11%, respectively, of its revenue from a single customer.

Approximately 48% of the labor force for the Cooperative is under a collective bargaining agreement that expires January 31, 2012.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

In January 2010, the Financial Accounting Standards Board (FASB) issued a revision to Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, which requires new disclosures about transfers in and out of Level 1 and 2 fair value measurements and activity in Level 3 fair value measurements. The revision also amends subtopic 820-10 to provide clarification about the required level of disaggregation for fair value measurement disclosures of each class of assets and liabilities and disclosures about inputs and valuation techniques. The revision was effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosure about purchases, sales, issuances, and settlements in the rollforward activity of Level 3 fair value measurements, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Cooperative implemented the portions of the guidance required on January 1, 2010, and the implementation did not have a material impact on its consolidated financial statements. See Note 8 to the consolidated financial statements for further information and required disclosures.

In January 2010, the FASB issued, *Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements* (ASU No. 2010–06), which updates the codification to require new disclosures for assets and liabilities measured at fair value. The requirements include expanded disclosure of valuation methodologies for fair value measurements, transfers between levels of the fair value hierarchy, and gross rather than net presentation of certain changes in Level 3 fair value measurements. The updates to the codification contained in ASU No. 2010–06 were effective for interim and annual periods beginning after December 15, 2009, except for requirements related to gross presentation of certain changes in Level 3 fair value measurements, which are effective for interim and annual periods beginning after December 15, 2010. The Cooperative implemented the portions of the guidance required on January 1, 2010, and the implementation did not have a material impact on its consolidated financial statements. See Note 8 to the consolidated financial statements for further information and required disclosures.

3. INCOME TAXES

The Internal Revenue Service has determined that Dairyland is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Accordingly, the Cooperative's utility operations are generally exempt from federal and state income taxes, and, no provision for such taxes is recorded in the consolidated financial statements.

For its non-utility operations, the Cooperative accounts for 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 for income taxes was $0 at December 31, 2010 and 2009, primarily because 100% of the allocation of earnings is in the form of non-taxable patronage.

The Cooperative's deferred taxes as of December 31, 2010 and 2009, consist of a net deferred tax asset of $275. 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. 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, 2010, the Cooperative has federal and state NOL carryforwards of $310 and $1,501, which begin to expire in 2026 and 2013, respectively.

4. AVAILABLE-FOR-SALE INVESTMENTS

Investments under debt agreements and nuclear decommissioning funds as of December 31, 2010 and 2009, are classified as available-for-sale, recorded at fair value, and include the following:

	Fair Value	
	2010	2009
Cash and cash equivalents	$28,089	$23,821
U.S. government securities	23,878	21,877
Corporate bonds	7,703	7,761
Common stocks	36,519	32,339
Foreign obligations	2,339	1,914
	$98,528	$87,712

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 $7,991 and $5,317 on these investments as of December 31, 2010 and 2009, 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, 2010, are as follows:

	Fair Value	Cost
Due within 1 year	$ 2,073	$ 2,047
Due after 1 year through 5 years	8,560	8,482
Due after 5 years through 10 years	7,964	7,893
Due after 10 years	15,323	14,713
	$33,920	$33,135

Information regarding the sale of available-for-sale marketable securities, including nuclear decommissioning trusts, for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Proceeds from sale of securities	$72,766	$87,627
Realized gains	1,656	147

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 $1,880 in 2010 as the Cooperative cannot represent that it has the intent and ability to hold securities until they recover 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 $333 and $293 for the years ended December 31, 2010 and 2009, respectively.

5. 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 construction revolver and an operating line. The construction revolver is used to fund capital projects until permanent financing can be obtained through RUS. Some capital projects will last longer than one year, but the intent is to pay down the construction line of credit as permanent funding is received. The operating line of credit is used to meet short-term working capital requirements. Compensating balance requirements and fees relating to the lines of credit were not significant in 2010 and 2009. The construction revolver line of credit expires December 2012. The operating line of credit expires December 2012, and the principal balance must be paid in full within one business day of expiration, unless unilaterally extended by CoBank. Information regarding line of credit balances and activity for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Interest rate at year-end	2.61 %	2.24 %
Committed availability at year-end:		
Construction revolver	$ 185,000	$ 185,000
Operating line	65,000	65,000
Total	$ 250,000	$ 250,000
Borrowings outstanding at year-end:		
Construction revolver	$ 104,000	$ 86,712
Operating line	-	10,100
Total	$ 104,000	$ 96,812
Average borrowings outstanding during year:		
Construction revolver	$ 88,897	$ 108,466
Operating line	944	28,295
Total	$ 89,841	$ 136,761

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 $255 and $324 during 2010 and 2009, respectively. These amounts have been included in interest expense in the consolidated statements of revenues and expenses.

6. LONG-TERM OBLIGATIONS

Long-term obligations as of December 31, 2010 and 2009, consist of the following:

	2010	2009
Federal Financing Bank obligations, 2.6% to 6.8%	$ 822,266	$ 799,002
RUS obligations, 2%, 5%, 4.125% and grant funds	6,982	17,529
CoBank notes, 6.2%, 7.4%, and 2.9%	42,933	38,457
City of La Crosse, Wisconsin, Pollution Control Bonds, 5.45% to 5.55%	23,605	23,605
Long-term debt	895,786	878,593
Less current maturities	38,825	28,925
Total long-term obligations	$ 856,961	$ 849,668

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 monthly principal and interest installments through 2024. Payments on the CoBank 6.2%, 7.4%, and 2.9% notes are due monthly or quarterly through 2019.

On December 27, 2001, the City of La Crosse, Wisconsin, Pollution Control Bonds (the "Bonds") were reissued at fixed interest rates of 5.45% for the $7,545 of Bonds with an expected maturity date of September 2014 and 5.55% for the $16,060 of Bonds with an expected maturity date of February 2015. On February 22, 2011, the Bonds were redeemed with principal and interest payments without penalty. The Bonds will be replaced with long-term obligations in 2011.

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, 2010.

Scheduled maturities of the Cooperative's long-term obligations as of December 31, 2010, were as follows:

Years Ending December 31	
2011	$ 38,825
2012	45,873
2013	35,315
2014	41,632
2015	49,898
Thereafter	684,243
Total	$ 895,786

7. LEASES

Operating Leases — The Cooperative has entered into lease agreements under which it is the lessee on an operating lease for a Caterpillar coal dozer, six rail cars, and fleet vehicles. These transactions are covered in the master lease agreement and have lease terms ranging from 4 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 $337 and $243 in 2010 and 2009, respectively. The schedule of future minimum lease payments as of December 31, 2010, is as follows:

Years Ending December 31	
2011	$ 415
2012	412
2013	377
2014	285
2015	134
Thereafter	307
Total	$ 1,930

Capital Leases — The Cooperative entered into several capital lease agreements in 2010 for work equipment and computer equipment. The transactions are covered in the master lease agreement with a lease term of four years. At the end of the lease, the Cooperative can purchase the equipment for a bargain purchase price. The gross amount of the leases was $641. The accumulated amortization of the capital leases was $52. The principal and interest payments were $136 and $44 in 2010 and 2009, respectively. The schedule of future minimum lease payments as of December 31, 2010, is as follows:

Years Ending December 31	
2011	$ 229
2012	229
2013	216
2014	124
2015	7
Total minimum lease payments	805
Amounts representing interest	71
Present value of minimum lease payments	734
Current maturities	196
Long-term capital lease obligations	$ 538

8. 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, 2010 and 2009, is estimated to be as follows:

	2010		2009	
	Recorded Value	Fair Value	Recorded Value	Fair Value
Assets:				
Economic development loans and other investments	$ 9,312	$ 9,312	$ 8,047	$ 8,047
Investments in capital term certificates of NRUCFC	9,176	9,176	9,176	9,176
Liabilities — long-term obligations	895,786	928,970	878,593	1,064,107

Assets and Liabilities Measured at Fair Value — Generally accepted accounting principles establish a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and provides for required disclosures about fair-value measurements. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

A description of the inputs used in the valuation of assets and liabilities are as follows:

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 are 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, 2010 and 2009, aggregated by the level in the fair-value hierarchy within which those measurements fall:

		Fair-Value Measurements Using		
2010	**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	$ 95,324	$ 95,324	$ -	$ -
Investments under debt agreements — marketable securities	3,204	-	3,204	-
Economic development loans and other	9,312	-	-	9,312
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	1,357	-	1,357	-
	$118,373	$ 95,324	$ 4,561	$ 18,488

		Fair-Value Measurements Using		
2009	**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	$ 85,091	$ 85,091	$ -	$ -
Investments under debt agreements — marketable securities	2,621	-	2,621	-
Economic development loans and other	8,047	-	-	8,047
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	1,199	-	1,199	-
	$106,134	$ 85,091	$ 3,820	$ 17,223

The following table presents the changes in Level 3 recurring fair-value for the years ended December 31, 2010 and 2009:

	Fair-Value Measurement Using Significant Unobservable Inputs (Level 3)
Economic development loans and other:	
Balance — January 1, 2010	$ 8,047
New investment and loans made	821
Loan repayments received	(188)
Patronage capital allocations	623
Reinvested net earnings	9
Balance — December 31, 2010	$ 9,312

	Fair-Value Measurement Using Significant Unobservable Inputs (Level 3)
Economic development loans and other:	
Balance — January 1, 2009	$ 7,599
New investment and loans made	84
Loan repayments received	(379)
Patronage capital allocations	735
Reinvested net earnings	8
Balance — December 31, 2009	$ 8,047

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.

9. 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, $2,458 and $2,355 were retired in 2010 and 2009, 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. Since 2003, the amount of non-operating 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, 2010, includes 2010 margins assignable of $9,705 and unallocated reserves of $3,456. Patronage capital as of December 31, 2009, includes 2009 margins assignable of $7,500 and unallocated reserves of $4,661.

10. COMMITMENTS AND CONTINGENCIES

The Cooperative's estimated 2011 construction program expenditures, including Weston 4, are $53,790 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, 2010, are $104,668 in 2011, $57,213 in 2012, $60,204 in 2013, $22,450 in 2014, and $14,769 in 2015.

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.

11. 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. Pension costs for this pension plan were $9,972 in 2010 and $7,121 in 2009.

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, 2010 and 2009, are as follows:

	2010	2009
Amount recognized in the consolidated balance sheets:		
Total accrued qualified and nonqualified benefit obligation	$ 7,724	$ 6,239
Less current portion included in accrued expenses — other	(275)	(220)
Long-term portion	$ 7,449	$ 6,019
Change in benefit obligation:		
APBO — beginning of year	$ 6,239	$ 6,532
Service cost	299	252
Interest cost	347	411
Plan changes	400	-
Actuarial loss (gain)	705	(643)
Benefits paid	(266)	(313)
APBO — end of year	$ 7,724	$ 6,239
Funded status of plan — December 31	$ (7,724)	$ (6,239)
Accrued postretirement health insurance obligations recorded at year-end	$ (7,724)	$ (6,239)
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contribution	266	313
Benefits paid	(266)	(313)
Fair value of plan assets — end of year	$ -	$ -
Change in accumulated other comprehensive loss:		
Net loss at prior measurement date	$ 1,412	$ 2,167
Prior service cost	$ 400	-
Actuarial loss (gain)	705	(643)
Recognition in expense	(61)	(112)
Accumulated other comprehensive loss	$ 2,456	$ 1,412
Components of net periodic postretirement benefit cost:		
Service cost — benefits attributed to service during the year	$ 299	$ 252
Interest cost on accrued postretirement health insurance obligation	347	411
Amortization of unrecognized actuarial loss	61	112
Net periodic postretirement benefit expense	$ 707	$ 775

Employer cash contributions expected to be made to the plan during the fiscal year ending December 31, 2011 is $275. The amount of accumulated other comprehensive loss expected to be recognized during the fiscal year ending December 31, 2011 is an actuarial loss of $103 and amortization of prior service cost of $39.

For measurement purposes, a 5.66% and 6.20% discount rate was assumed for 2010 and 2009, respectively, to determine net periodic benefit cost. The 2010 and 2009 annual health care cost increase assumed is 7.99% and 7.50%, respectively, decreasing gradually to 4.50% for 2030 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 $97 and the end of year APBO by $880. A one-percentage-point decrease in the assumed health care cost trend rates would decrease the total of service and interest cost components by $80 and the end of year APBO by $756.

	Postretirement Health Insurance Obligation
Expected future benefit payments:	
2011	$ 275
2012	312
2013	367
2014	439
2015	525
2016-2019	3,525

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 $1,073 and $1,017 for 2010 and 2009, 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 $1,685 and $1,653 as of December 31, 2010 and 2009, respectively. The cost for this sick leave benefit was $287 in 2010 and $190 in 2009.

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 $1,357 and $1,200 as of December 31, 2010 and 2009, 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 were $8,848 and $8,114 for 2010 and 2009, respectively.

12. RELATED-PARTY TRANSACTIONS

The Cooperative provides electric and other services to its class A members. The Cooperative received revenue of $305,760 and $290,619 in 2010 and 2009, respectively, for these services. The Cooperative has accounts receivable from its class A members of $31,398 and $30,129 as of December 31, 2010 and 2009, respectively.

The Cooperative has notes payables to the class A member of $8,037 and $10,182 as of December 31, 2010 and 2009, 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 $255 and $324 in 2010 and 2009, respectively.

The Cooperative has interest-bearing loan receivables from class A members of $882 and $949 as of December 31, 2010 and 2009, respectively. These loan receivables, which are recorded as part of other assets, are related to the economic development program whereby 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 $44 and $50 in 2010 and 2009, respectively.

13. 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 $44,263 and $41,435 during 2010 and 2009, respectively. As of December 31, 2010, GRE had $10,754 on deposit with the Cooperative for its share of the 2010 estimated operating coal inventory at Genoa 3.

14. ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation (ARO) is the result of legal or contractual obligations associated with the retirement of a tangible long-lived asset that results 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 determined that it has AROs related to future removal and disposal of asbestos at its power plants. The Cooperative recorded an additional liability of $685 to its discounted liability in 2010 and recorded a reduction of $348 in 2009 related to this obligation. There are no assets legally restricted for the 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.

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 $77,916 as of December 31, 2010, and $71,695 as of December 31, 2009, 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 $17,408 as of December 31, 2010, and $13,396 as of December 31, 2009, 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 liabilities.

A reconciliation of the beginning and ending aggregate carrying amount of the obligations as of December 31, 2010 and 2009, is as follows:

	2010	2009
Balance — beginning of year	$80,164	$83,276
Additional (reduction to) obligation due to change in estimated cash flows	685	(348)
Accretion/depreciation in ARO	165	(175)
Incurred costs on decommissioning projects	(10,548)	(8,811)
Provision recorded as decommissioning liabilities	12,669	6,222
Balance — end of year	$83,135	$80,164

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.

15. 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 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 filed a damages claim against the United States Government in the United States Court of Federal Claims to recover its costs generally incurred after 1998 related to spent fuel remaining at LACBWR. The initial claim covered the period from 1999 through 2006. Subsequent suits are expected to be brought for the continuing costs arising from the presence of the spent fuel. The initial claim was tried in July 2008 and resulted in a damages award in December 2009 of approximately $37,600. The Government is expected to appeal the decision. No payments for damages will be received until the completion of the appeals process. None of the award damages are reflected in the consolidated balance sheets or statements of revenues and expenses. The Cooperative is currently seeking approvals to move the spent fuel to a temporary dry storage facility to be located on the LACBWR site. 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. Annual SAFSTOR costs are recorded on an as-incurred basis and are incorporated into the annual budget and rate making process. 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, and SAFSTOR costs, are 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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