BARBARA A. NICK
President and CEO

DAIRYLAND POWER
COOPERATIVE

April 20, 2018

In reply, please refer to LAC-14413

DOCKET NO. 50-409

ATTN: Document Control Desk
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

SUBJECT: Dairyland Power Cooperative
La Crosse Boiling Water Reactor (LACBWR)
Possession-Only License 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, 2017 and 2016. We will forward our 2017 Annual Report to you when it is completed.

Sincerely,

Barbara A. Nick
President and CEO

BAN:AMW:krm
G:\Shared\Audit\2017 Audit\NRC Audit Transmittal Letter Of Financial Statements 04202018.Docx

Enclosure(s)

cc: Cynthia D. Pederson, NRC Regional Administrator
Marlayna Vaaler, NRC, FSME

NMSS01

Ed Bowen, DPC
Cheryl Olson, DPC LACBWR

STATE OF WISCONSIN)

)

COUNTY OF LA CROSSE)

Personally came before me this 20th day of April, 2018, the above named, Barbara A. Nick, to me known to be the person who executed the foregoing instrument and acknowledged the same.

Laurie A. Engen

Notary Public, La Crosse County Wisconsin

My commission expires 5-25-2018

LAURIE A. ENGEN
Notary Public
State of Wisconsin

Dairyland Power Cooperative and Subsidiary

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

Deloitte.

Deloitte & Touche LLP
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Minneapolis, MN 55402-1538
USA

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Dairyland Power Cooperative
La Crosse, Wisconsin

We have audited the accompanying consolidated financial statements of Dairyland Power Cooperative and subsidiary (the "Cooperative"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of revenues, expenses, and comprehensive income, member and patron equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 28, 2018

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

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

	2017	2016
ASSETS		
ELECTRIC PLANT:		
Plant and equipment—at original cost	$ 1,760,050	$ 1,691,311
Less accumulated depreciation	(644,353)	(612,445)
Net plant and equipment	1,115,697	1,078,866
Construction work in progress	66,775	109,556
Total electric plant	1,182,472	1,188,422
OTHER ASSETS:		
Nuclear decommissioning funds (Note 4)	23,114	74,343
Investments under debt agreements—marketable securities (Note 4)	2,631	3,783
Other property and investments	11,627	11,721
Investments in capital term certificates of National Rural Utilities Cooperative Finance Corporation	9,176	9,176
Regulatory assets (Note 1)	24,939	29,995
Investment for deferred compensation	1,890	1,603
Deferred charges (Note 1)	17,546	16,909
Total other assets	90,923	147,530
CURRENT ASSETS:		
Cash and cash equivalents	30,731	27,278
Accounts receivable:		
Energy sales—net of allowance for doubtful accounts of $10 for 2017 and 2016	40,793	37,362
Other	2,678	1,942
Inventories:		
Fossil fuels	55,075	59,863
Materials and supplies	21,324	19,769
Prepaid expenses and other	15,295	21,078
Total current assets	165,896	167,292
TOTAL	$ 1,439,291	$ 1,503,244

(Continued)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

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

	2017	2016
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Member and patron equities:		
Membership fees	$ 1	$ 1
Patronage capital	296,389	273,501
Accumulated other comprehensive income (Note 1)	2,397	2,289
Total member and patron equities	298,787	275,791
Long-term obligations (Note 6)	767,343	772,961
Total capitalization	1,066,130	1,048,752
OTHER LIABILITIES:		
Decommissioning and asset retirement obligations (Note 14)	28,614	81,380
Postretirement health insurance obligation (Note 11)	4,492	4,669
Accrued benefits	645	853
Deferred compensation	1,890	1,603
Obligations under capital leases	5,875	5,615
Other deferred credits (Note 1)	63,494	69,263
Total other liabilities	105,010	163,383
COMMITMENTS AND CONTINGENCIES (Note 10)		
CURRENT LIABILITIES:		
Current maturities of long-term obligations and obligations under capital leases	49,533	52,899
Line of credit (Note 5)	154,000	108,000
Advances from member cooperatives	12,461	13,274
Accounts payable	23,425	38,835
Accrued expenses:		
Payroll, vacation, and benefits	6,307	6,980
Interest	9,195	9,500
Property and other taxes	3,924	3,919
Special refund to members (Note 15)	-	47,636
Other	9,306	10,066
Total current liabilities	268,151	291,109
TOTAL	$ 1,439,291	$ 1,503,244

See notes to consolidated financial statements. (Concluded)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
UTILITY OPERATIONS:		
Operating revenues:		
Sales of electric energy	$414,194	$392,123
Other	27,192	22,709
Total operating revenues	441,386	414,832
Operating expenses:		
Fuel	120,471	107,746
Purchased and interchanged power	66,664	61,651
Other operating expenses	94,438	92,693
Depreciation and amortization	55,000	48,989
Maintenance	37,839	40,198
Property and other taxes	8,842	8,230
Total operating expenses	383,254	359,507
Operating margin before interest and other	58,132	55,325
Interest and other:		
Interest expense	40,679	39,817
Allowance for funds used in construction—equity	(1,024)	(1,591)
Other—net	203	1,639
Total interest and other	39,858	39,865
OPERATING MARGIN	18,274	15,460
NONOPERATING MARGIN (Note 1)	8,724	7,686
NET MARGIN AND EARNINGS	26,998	23,146
OTHER COMPREHENSIVE INCOME (LOSS)—Postretirement health insurance obligation adjustments	108	(126)
COMPREHENSIVE INCOME	$ 27,106	$ 23,020

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBER AND PATRON EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	Membership Fees	Accumulated Other Comprehensive Income	Patronage Capital	Total Member and Patron Equities
BALANCE—December 31, 2015	$ 1	$2,415	$254,265	$256,681
Net margin and earnings	-	-	23,146	23,146
Postretirement health insurance obligation adjustments	-	(126)	-	(126)
Retirement of capital credits	-	-	(3,910)	(3,910)
BALANCE—December 31, 2016	1	2,289	273,501	275,791
Net margin and earnings	-	-	26,998	26,998
Postretirement health insurance obligation adjustments	-	108	-	108
Retirement of capital credits	-	-	(4,110)	(4,110)
BALANCE—December 31, 2017	$ 1	$2,397	$296,389	$298,787

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin and earnings	$ 26,998	$ 23,146
Adjustments to reconcile net margin and earnings to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to operating expenses	55,000	48,989
Charged through other operating elements such as fuel expense	1,798	1,754
Allowance for funds used in construction—equity	(1,024)	(1,591)
Unrealized gains on nuclear decommissioning trust investments	(1,046)	-
Changes in operating elements:		
Accounts receivable	(4,167)	(1,538)
Inventories	2,728	(10,812)
Prepaid expenses and other assets	5,783	(4,853)
Accounts payable	(20,117)	12,727
Accrued expenses and other liabilities	(55,518)	42,668
Deferred charges and other	1,377	38,743
Total adjustments	(15,186)	126,087
Net cash provided by operating activities	11,812	149,233
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric plant additions	(37,490)	(56,283)
Advances to nuclear decommissioning funds		(8)
Purchase of investments	(190,454)	(547,107)
Proceeds from sale of investments and economic development loans	190,247	546,278
Net cash used in investing activities	(37,697)	(57,120)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit	182,000	79,000
Repayments under line of credit	(136,000)	(167,000)
Borrowings under long-term obligations	21,665	99,090
Repayments of long-term obligations	(33,404)	(100,917)
Retirement of capital credits	(4,110)	(3,910)
Borrowings of advances from member cooperatives	255,562	219,173
Repayments of advances from member cooperatives	(256,375)	(216,657)
Net cash provided by (used in) financing activities	29,338	(91,221)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,453	892
CASH AND CASH EQUIVALENTS—Beginning of year	27,278	26,386
CASH AND CASH EQUIVALENTS—End of year	$ 30,731	$ 27,278
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 42,274	$ 32,575
Electric plant additions funded through accounts payable and accrued expenses	$ 9,470	$ 4,764
Electric plant additions under capital leases	$ 3,015	$ 4,062

See notes to consolidated financial statements.

1. NATURE OF BUSINESS AND ORGANIZATION

Business—Dairyland Power Cooperative and subsidiary ("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 and E members.

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

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 depreciation rates determined by a third-party depreciation study completed in November 2016 and approved by RUS in 2017 for rates effective in 2017. The Cooperative is unable to obtain the information to separate the cumulative removal costs as of December 31, 2017 and 2016. 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% of depreciable plant balances for 2017 and 3.1% for 2016.

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 (3.715% in 2017 and 4.120% in 2016) to certain electric plant additions under construction. The amount of such allowance was $1,847 in 2017 and $3,055 in 2016. The borrowed funds component of AFUDC for 2017 and 2016, was $823 and $1,464, respectively (representing 1.656% and 1.990% in 2017 and 2016, respectively). The equity component of AFUDC for 2017 and 2016 was $1,024 and $1,591, respectively, (representing 2.059% and 2.130% in 2017 and 2016, respectively). The borrowed funds components were included as a reduction of interest expense in the consolidated statements of revenues, expenses and comprehensive income.

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.

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 nonoperating margin. 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 2017 and 2016, the Cooperative realized $167 and $1,189, 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. During 2017, the Cooperative established a regulatory asset for the unrecovered plant balance and termination of the gas purchase agreement related to the discontinuation of landfill operations at the Seven Mile Creek site. The amount is being amortized through rates over 36 months beginning in July 2017. During 2015, the Cooperative established a regulatory asset for a contract termination fee related to a power purchase agreement. This is being amortized to purchased power expense over the five-year remaining term of the original contract beginning November 2015. During 2014, the Cooperative established a regulatory asset related to unrecovered plant balances upon closure of the Alma 4&5 generating stations. This is being amortized through rates over 10 years beginning in 2015. The expected following year's portion of these regulatory assets is included in prepaid expenses and other at December 31, 2017 and 2016, respectively.

The noncurrent portion of regulatory assets as of December 31, 2017 and 2016, include the following:

	2017	2016
Power purchase contract termination fee	$10,023	$15,491
Alma 4&5 unrecovered plant balances	12,432	14,504
Seven Mile unrecovered plant balance and termination fee	2,484	-
Total regulatory assets	$24,939	$29,995

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, 2017 and 2016, the Cooperative's deferred charges are being reflected in rates charged to customers, except the deferred nuclear litigation as noted below. If all or a separable portion of the Cooperative's operations become no longer 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. The noncurrent portion of deferred charges as of December 31, 2017 and 2016, include the following:

	2017	**2016**
Pension prepayment	$10,759	$13,449
Deferred nuclear litigation	105	-
Other	6,682	3,460
Total deferred charges	$17,546	$16,909

The voluntary prepayment to the Cooperative's multiemployer defined-benefit pension plan to reduce future funding amounts is being amortized to benefits expense over 10 years beginning in 2013 as prescribed by RUS. Litigation expenses from the third nuclear contract damages claim against the United States government are being deferred pending the outcome of that litigation.

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 net realizable value.

Nitrogen Oxide Emission Allowances—Beginning in 2009, the U.S. Environmental Protection Agency (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 during 2017 and 2016 did not require the Cooperative to purchase additional allowances beyond what was allocated under the program. As of December 31, 2017 and 2016, allowances are recorded in inventory at the lower of average cost or net realizable value. The obligations to EPA to meet 2017 and 2016 emissions are $0. The transfer to EPA for the 2016 annual allowances occurred in June 2017. The transfer to EPA for the 2017 annual allowances is expected to occur in May or June 2018. The remaining allowances in inventory as of December 31, 2017, will be surrendered to EPA, as applicable, under the terms of the consent decree.

Deferred Credits—Deferred credits represent both future revenue to the Cooperative associated with customer prepayments and noncurrent obligations and reserves related to operations. As of December 31, 2017, the Cooperative's deferred credits are being considered when determining rates charged to customers.

The noncurrent portion of deferred credits as of December 31, 2017 and 2016, include the following:

	2017	2016
Unearned revenue—contract prepayment	$63,015	$68,744
Other	479	519
Total deferred credits	$63,494	$69,263

Unearned Revenue—Contract Prepayment—Revenue from the settlement payment received from Great River Energy (GRE) as discussed in Note 13, and is being recognized into revenue through 2029.

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. For 2017 and 2016, the power cost adjustment to the class A members resulted in credits to sales billed of $(1,188) and $(5,450), respectively. These amounts are recorded in sales of electric energy in operating revenues on the consolidated statements of revenues, expenses and comprehensive income.

Other Operating Revenue—Other operating revenue primarily includes 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, 2017 and 2016.

Nonoperating Margin—The nonoperating margin for the years ended December 31, 2017 and 2016, includes the following:

	2017	2016
Investment income	$ 7,841	$ 6,722
Investment income on nuclear decommissioning funds:		
Net earnings	2,225	3,153
Realized gains	671	5,703
Realized losses and losses due to OTTI	(1,798)	(9,070)
Provision—recorded as estimated decommissioning liabilities	(1,098)	214
Other	883	964
Nonoperating margin	$ 8,724	$ 7,686

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

Accumulated Other Comprehensive Income—Accumulated other comprehensive income is comprised solely of a postretirement health insurance obligation. See additional information in Note 11. The components for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Balance—beginning of year	$2,289	$2,415
Recognition in expense:		
Amortization of prior service cost	(102)	(102)
Amortization of unrecognized actuarial gain	(126)	(131)
Actuarial assumption changes	336	107
Net other comprehensive gain (loss)	108	(126)
Balance—end of year	$2,397	$2,289

Concentration of Risk—Approximately 45% of the labor force for the Cooperative is under a collective bargaining agreement that expires January 31, 2019.

Subsequent Events—The Cooperative considered events for recognition or disclosure in the consolidated financial statements that occurred subsequent to December 31, 2017, through March 28, 2018, the date the consolidated financial statements were available to be issued. All material subsequent events have been disclosed in these consolidated financial statements.

2. RECENTLY ISSUED ACCOUNTING STANDARDS UPDATES

Issued—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-1, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. ASU 2014-09 is effective for the Cooperative in 2019. Management is in the process of evaluating the guidance and has not yet determined if the adoption of this guidance will have a material impact on the Cooperative's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Cooperative is still in the process of evaluating the impact this guidance will have on the consolidated financial statements. This guidance is effective for the Cooperative in 2020.

In March 2017, the FASB issued new accounting guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in financial statements. The new guidance requires components of net periodic pension cost and net periodic postretirement benefit costs that are currently aggregated and reported as part of compensation be disaggregated and reported separately. Only the service cost component may be reported as part of compensation, be included in income from operations and be eligible for capitalization. The other cost components must be reported separately in the income statement. The new guidance will be effective for the Cooperative in 2019. Management believes the adoption of this new guidance will not have a material impact on the consolidated financial statements and 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.

4. AVAILABLE-FOR-SALE INVESTMENTS

Investments in the nuclear decommissioning trust (NDT) and under debt agreements are classified as available-for-sale, recorded at fair value, and include the following as of December 31, 2017 and 2016:

	Fair Value		
2017	**NDT**	**Debt Agreements**	**Total**
Cash and cash equivalents	$ 2,450	$2,631	$ 5,081
U.S. government securities	5,922	-	5,922
Corporate bonds	14,541	-	14,541
Foreign obligations	201	-	201
	$23,114	$2,631	$25,745

	Fair Value		
2016	**NDT**	**Debt Agreements**	**Total**
Cash and cash equivalents	$ 3,427	$3,783	$ 7,210
U.S. government securities	19,016	-	19,016
Corporate bonds	49,759	-	49,759
Foreign obligations	2,141	-	2,141
	$74,343	$3,783	$78,126

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, 2017, are as follows:

	Fair Value	Cost
Due within 1 year	$ 434	$ 890
Due after 1 year through 5 years	9,276	9,287
Due after 5 years through 10 years	6,554	6,533
Due after 10 years	4,400	4,519
	$20,664	$21,229

Information regarding the sale of available-for-sale marketable securities, including nuclear decommissioning trusts, for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Proceeds from sale of securities	$188,543	$543,732
Realized losses	(960)	(2,178)

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 $167 and $1,189 in 2017 and 2016, respectively, 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. The Cooperative's policy is to provide additional funding of the nuclear decommissioning trust, as necessary, through rates and with future earnings, to ensure that the trust will be sufficient to cover final decommissioning expenses. Earnings on the nuclear decommissioning funds and the equivalent provision for nuclear decommissioning costs are recorded as nonoperating margins, since the plant is no longer in service.

Investment income included in nonoperating margin on the consolidated statements of revenues, expenses and comprehensive income is net of investment fees of approximately $101 and $298 for the years ended December 31, 2017 and 2016, respectively.

5. LINES OF CREDIT

To provide interim financing capabilities, the Cooperative has arranged committed lines of credit with availability aggregating approximately $350,000. On November 30, 2015, a syndicated credit facility was executed with CoBank acting as lead arranger. This facility has a five-year term and provides funds both for short-term working capital requirements and for capital projects until permanent financing can be obtained. Some capital projects will last longer than one year, but the intent is to pay down the line of credit as permanent funding is received. Compensating balance requirements and fees relating to the lines of credit were not significant in 2017 and 2016. Information regarding line of credit balances and activity for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Interest rate at year-end	2.56 %	1.76 %
Total committed availability at year-end	$350,000	$350,000
Total borrowings outstanding at year-end	$154,000	$108,000
Average borrowings outstanding during year	$151,231	$178,308

The Cooperative also allows member cooperatives to prepay their power bills and pays interest on these prepayments based on current short-term borrowing rates. Advances from member cooperatives totaled $12,461 and $13,274 at December 31, 2017 and 2016, respectively. Interest expense on member cooperative advances was $194 and $111 at December 31, 2017 and 2016, respectively. These amounts have been included in interest expense in the consolidated statements of revenues, expenses, and comprehensive income.

6. LONG-TERM OBLIGATIONS

Long-term obligations as of December 31, 2017 and 2016, consist of the following:

	2017	2016
Federal Financing Bank obligations—1.93%—4.46%	$393,223	$380,833
Federal Financing Bank obligations—4.52%—6.80%	307,675	315,128
Total Federal Financing Bank	700,898	695,961
RUS obligations—4.125% and grant funds	4,423	4,839
CoBank notes—2.6%, 2.9%, 4.3%, 6.2%, and 7.4%	25,123	35,801
Private bonds placement obligations—3.42%	84,166	87,500
Long-term debt	814,610	824,101
Less current maturities	(47,267)	(51,140)
Total long-term obligations	$767,343	$772,961

Quarterly principal and interest payments on the long-term obligations to the Federal Financing Bank (FFB) extend through 2048. Long-term obligations to FFB are net of deposits in the RUS debt prepayment program of $195,657 and $214,581 as of December 31, 2017 and 2016, respectively. These deposits earn 5% interest and are available solely for future principal and interest payments.

Long-term obligations to the RUS are payable in equal monthly principal and interest installments through 2024. Payments on the CoBank 2.6%, 2.9%, 4.3%, 6.2%, and 7.4% notes are due monthly or quarterly through 2023. The private bond placement is an amortizing 30-year term loan at an interest rate of 3.42%. Quarterly principal and interest payments on this obligation extend through 2043.

The Cooperative executed, filed and recorded an indenture of mortgage, security agreement and financing statement, dated as of September 13, 2011 (the "Indenture"), between the Cooperative, as grantor and U.S. Bank National Association, as trustee. The perfected lien of the Indenture on substantially all of the Cooperative's assets secured equally and ratably all of the Cooperative's long-term debt with the exception of unsecured notes to CoBank (balances of $14,794 and $21,989 at December 31, 2017 and 2016, respectively). The Cooperative is required to maintain and has maintained certain financial ratios related to earnings in accordance with the covenants of its loan agreements as of December 31, 2017.

Scheduled maturities of the Cooperative's long-term obligations as of December 31, 2017, were as follows:

Years Ending December 31	
2018	$ 47,267
2019	46,737
2020	46,922
2021	46,280
2022	45,469
Thereafter	581,935
Total	$ 814,610

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 four 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 $500 and $590 in 2017 and 2016, respectively. The schedule of future minimum lease payments as of December 31, 2017, is as follows:

Years Ending December 31	
2018	$ 444
2019	345
2020	180
2021	49
2022	39
Thereafter	33
Total	$ 1,090

Capital Leases—The Cooperative has entered into several capital lease agreements for work equipment and computer equipment. The transactions are covered in the master lease agreement with lease terms of four, five or nine 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 $3,305 and $4,137 as of December 31, 2017 and 2016, respectively. The accumulated amortization of the capital leases was $1,376 and $2,360 as of December 31, 2017 and 2016, respectively. The principal and interest payments were $2,461 and $1,991 in 2017 and 2016, respectively. The schedule of future minimum lease payments as of December 31, 2017, is as follows:

Years Ending December 31	
2018	$2,519
2019	2,178
2020	1,837
2021	1,259
2022	676
Thereafter	231
Total minimum lease payments	8,700
Amounts representing interest	(559)
Present value of minimum lease payments	8,141
Current maturities	(2,266)
Long-term capital lease obligations	$5,875

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, 2017 and 2016, is estimated to be as follows:

	2017		**2016**	
	Recorded Value	**Fair Value**	**Recorded Value**	**Fair Value**
Assets:				
Other property and investments	$ 11,627	$ 11,627	$ 11,721	$ 11,721
Investments in capital term certificates of NRUCFC	9,176	9,176	9,176	9,176
Liabilities—long-term obligations	814,610	1,110,071	824,101	1,149,059

Assets and Liabilities Measured at Fair Value—Accounting principles generally accepted in the United States of America 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, 2017 and 2016, aggregated by the level in the fair value hierarchy within which those measurements fall:

		Fair Value Measurements Using		
2017	**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	$ 23,114	$ 23,114	$ -	$ -
Investments under debt agreements—marketable securities	2,631	-	2,631	-
Other property and investments	11,627	1,113	-	10,514
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	1,955	-	1,955	-
	$ 48,503	$ 24,227	$ 4,586	$ 19,690

2016	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	$ 74,343	$74,343	$ -	$ -
Investments under debt agreements—marketable securities	3,783	-	3,783	-
Other property and investments	11,721	1,373	-	10,348
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	1,679	-	1,679	-
	$100,702	$75,716	$5,462	$19,524

There were no significant transfers between Levels 1, 2 and 3 in 2017. The changes in Level 3 recurring fair value measurements using significant unobservable inputs for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Other property and investments:		
Balance—beginning of year	$10,348	$ 9,740
New investment and loans made	1,400	2,850
Loan repayments received and current maturities	43	(259)
Patronage capital allocations	223	267
Refunds of deposits	(1,500)	(2,250)
Balance—end of year	$10,514	$10,348

The valuation of these assets 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 assigned patronage capital balance as of December 31 of the prior year. 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 nonoperating margins assigned to members each year is at the discretion of the Board of Directors. Any unassigned nonoperating margins will become unallocated reserves and part of permanent equity. Patronage capital amounts for the years ended December 31, 2017 and 2016, are as follows:

	Assigned	Unassigned	Total
Balance—December 31, 2015	$195,525	$58,740	$254,265
Retirement of capital credits	(3,910)	-	(3,910)
Current year margins	13,869	9,277	23,146
Balance—December 31, 2016	205,484	68,017	273,501
Retirement of capital credits	(4,110)	-	(4,110)
Current year margins	17,250	9,748	26,998
Balance—December 31, 2017	$218,624	$77,765	$296,389

10. COMMITMENTS AND CONTINGENCIES

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 three-year terms. The estimated commitments under these contracts as of December 31, 2017, were $84,420 in 2018, $63,217 in 2019, and $61,198 in 2020.

A consent decree (CD) between the Cooperative, the EPA, and the Sierra Club entered by the U.S. District Court in 2012 was modified in 2014. The CD requires the Cooperative to spend $5,000 on environmental mitigation projects within five years of EPA's April 2013 approval of the projects and includes participation in major solar projects. The Cooperative reflected the obligation of this requirement in deferred credits. During 2016, the remaining $2,210 obligation for environmental mitigation projects was reduced by $1,441 spent on approved solar and other projects. During 2017, the remaining $769 obligation for environmental mitigation projects was reduced by $755 spent on approved solar and other projects. The estimated $14 cost for 2018 solar and other projects participation is included in accrued expenses.

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 Security Plan ("RS Plan"). This is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. Pension benefits are funded in accordance with the provisions of the RS Plan 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 RS Plan is a multiemployer plan for accounting purposes, all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers. The Cooperative may be contingently liable for its share of the RS Plans' unfunded vested liabilities.

The Cooperative's contributions to the RS Plan in 2017 and 2016 represented less than 5% of the total contributions made to the plan by all participating employers. In 2013, the Cooperative made a voluntary prepayment of $26,899 to this plan to reduce future contribution amounts. Expense for this pension plan was $11,619 in 2017 and $11,071 in 2016. The 2017 expense includes contributions to the plan of $8,929 and $2,690 of prepayment amortization. The 2016 expense includes contributions to the plan of $8,381 and $2,690 of prepayment amortization. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on both January 1, 2017 and 2016, based on the PPA funding target and PPA actuarial value of assets on those dates.

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

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 plan is 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, 2017 and 2016, are as follows:

	2017	**2016**
Amount recognized in the consolidated balance sheets:		
Total accrued qualified and nonqualified benefit obligation	$ 4,769	$ 4,956
Less current portion included in accrued expenses—other	(277)	(287)
Long-term portion	$ 4,492	$ 4,669
Change in benefit obligation:		
APBO—beginning of year	$ 4,956	$ 4,744
Service cost	262	248
Interest cost	175	174
Actuarial loss	(336)	(107)
Participant contributions		381
Benefits paid	(288)	(484)
APBO—end of year	$ 4,769	$ 4,956
Funded status of plan—December 31	$(4,769)	$(4,956)
Accrued postretirement health insurance obligations recorded at year-end	$ 4,769	$ 4,956
Change in plan assets:		
Employer contribution	(288)	(484)
Benefits paid	288	484
Change in accumulated other comprehensive income:		
Net income at prior measurement date	$ 2,289	$ 2,415
Actuarial assumption changes	336	107
Recognition in expense:		
Amortization of prior service cost	(102)	(102)
Amortization of unrecognized actuarial gain	(126)	(131)
Accumulated other comprehensive income	$ 2,397	$ 2,289
Components of net periodic postretirement benefit cost:		
Service cost—benefits attributed to service during the year	$ 262	$ 248
Interest cost on accrued postretirement health insurance obligation	175	174
Amortization of prior service cost	(102)	(102)
Amortization of unrecognized actuarial gain	(126)	(131)
Net periodic postretirement benefit expense	$ 209	$ 189

Employer cash contributions expected to be made to the plan during the fiscal year ending December 31, 2018, is $277. The amount of accumulated other comprehensive income expected to be recognized during the fiscal year ending December 31, 2018, is an actuarial gain of $139 and amortization of prior service cost of $102.

For measurement purposes, a 3.32% and 3.64% discount rate was assumed for 2017 and 2016, respectively, to determine net periodic benefit cost. The 2017 and 2016 annual health care cost increase assumed is 6.80% and 6.90%, respectively, decreasing gradually to 4.95% for 2040 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 $73 and the end-of-year APBO by $514. A one percentage point decrease in the assumed health care cost trend rates would decrease the total of service and interest cost components by $60 and the end-of-year APBO by $439.

Estimated future benefit payments from the plan as of December 31, 2017, are as follows:

Years Ending December 31	
2018	$ 277
2019	337
2020	325
2021	302
2022	282
2023–2027	1,582

Defined-Contribution Plan—Dairyland has a qualified tax-deferred savings plan for eligible employees. Eligible participants may make pretax contributions, as defined, with the Cooperative matching up to 2.5% of the participants' annual compensation. Contributions to this plan by the Cooperative were $1,242 and $1,098 for 2017 and 2016, respectively.

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 $1,955 and $1,678 as of December 31, 2017 and 2016, respectively, are reported at contract value, which approximates fair value.

The Cooperative also provides employees with medical insurance coverage, vision and dental 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 $9,248 and $9,077 for 2017 and 2016, respectively. The liability for these plans of $45 and $848 as of December 31, 2017 and 2016, respectively, are recorded in accrued expenses.

12. RELATED-PARTY TRANSACTIONS

The Cooperative provides electric and other services to its class A members. The Cooperative received revenue of $363,603 and $351,491 in 2017 and 2016, respectively, for these services. The Cooperative has accounts receivable from its class A members of $37,892 and $34,420 as of December 31, 2017 and 2016, respectively.

The Cooperative has advances from class A members of $12,444 and $13,274 as of December 31, 2017 and 2016, respectively, 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 $194 and $111 as of December 31, 2017 and 2016, respectively.

The Cooperative has interest-bearing loan receivables from class A members of $132 and $246 as of December 31, 2017 and 2016, respectively. These loan receivables, which are recorded as part of other assets, are related to the economic development program, wherein 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 $6 and $16 as of December 31, 2017 and 2016, respectively.

13. LONG-TERM POWER AGREEMENTS

During 2015, the Cooperative and GRE reached settlement terms amending a power agreement which shared costs and benefits of the Cooperative owned 345-megawatt coal-fired generating unit ("Genoa Station #3") located in Genoa, Wisconsin. The settlement terms allowed GRE to end its purchase of power and energy under the agreement as of June 1, 2015, upon prepayment by GRE of $83,543 for certain obligations under the agreement. GRE is no longer entitled to any output from the unit. GRE will remain responsible for its share of eventual decommissioning costs and of any liability for disposal of coal combustion byproducts. The transaction received required approval from RUS during 2015.

The prepayment by GRE was recorded in deferred credits and is being recognized into operating revenues on a straight-line basis through 2029, the approximate time frame over which the prepayment amounts would have been billed. The amounts recognized as revenue were $5,729 during both 2017 and 2016. Energy charges to GRE under the original agreement were $17,411 during 2015. Advances from GRE for required deposits under the original agreement were refunded as part of the settlement terms.

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. There are no assets legally restricted for purpose of settling the ARO related to future removal and disposal of asbestos.

The Cooperative has established a decommissioning trust to accumulate the estimated amounts necessary to decommission a nuclear power plant that the Cooperative formerly operated and the related Independent Spent Fuel Storage Installation (ISFSI). The assets of this trust in the amount of $23,114 and $74,343 as of December 31, 2017 and 2016, respectively, are outside the Cooperative's administrative control and are available solely to satisfy the future costs of decommissioning.

Nuclear decommissioning and other asset retirement obligations as of December 31, 2017 and 2016, are as follows:

	Nuclear	Other	Total
Balance—December 31, 2015	$ 88,114	$ 9,116	$ 97,230
Accretion in ARO	-	33	33
(Decrease) in estimated obligation	(2,444)	-	(2,444)
Incurred costs on projects	(11,327)	(2,112)	(13,439)
Balance—December 31, 2016	74,343	7,037	81,380
Accretion in ARO	-	19	19
Increase in estimated obligation	1,265		1,265
Incurred costs on projects	(52,494)	(1,556)	(54,050)
Balance—December 31, 2017	$ 23,114	$ 5,500	$ 28,614

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, 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

License—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 (NRC) in August 1987. LACBWR will remain in safe storage status (SAFSTOR) until the final stage of decommissioning of LACBWR, involving dismantlement and decontamination, can be completed. In May 2016, the NRC approved transfer of the license to La CrosseSolutions LLC (Solutions), a subsidiary of EnergySolutions LLC. Solutions will temporarily hold the license and assumes responsibility for the decommissioning of the site. The license will revert back to the Cooperative following completion of decommissioning activities. While Solutions undertakes decommissioning, the Cooperative retains a license for its continued ownership of the spent fuel.

Nuclear Waste Policy Act of 1982 (NWPA)—Under the NWPA, the United States government is responsible for the storage and disposal of spent nuclear fuel removed from nuclear reactors. By statute and under contract, the United States government was to have begun accepting spent fuel in January 1998, but has not yet licensed and established a repository.

The Cooperative filed an initial breach of contract damages claim against the United States government in the United States Court of Federal Claims to recover its costs generally incurred after 1998 through 2006 related to spent fuel remaining at LACBWR. In January 2013, the Cooperative received a damages award payment of $37,659 from the government for this claim.

The Cooperative filed a second contract damages claim in December 2012 to recover its costs generally incurred from 2007 through 2012. The Cooperative and the government agreed to settle the second claim in October 2016. Settlement proceeds of $73,500 were received from the government in November 2016, and at the direction of the Board of Directors, were recorded as a regulatory liability due to Class A members. The nuclear related regulatory asset of $16,700 and deferred charges for nuclear related litigation and plant costs of $9,164 were recovered from the regulatory liability as these amounts had not been collected in rates yet. The remaining net amount of $47,636 was refunded to Class A members in February 2017.

Subsequent damages claims will be filed to recover the continuing costs arising from the presence of the spent fuel.

ISFSI—The Cooperative completed the temporary dry storage facility project located on the LACBWR site and completed the move of the LACBWR spent nuclear fuel to this ISFSI facility in September 2012. The spent nuclear fuel will remain at the ISFSI until it is able to be transferred to the government. Annual ISFSI costs are recorded on an as incurred basis and incorporated into the annual budget and rate making process.

Decommissioning—The Solutions decommissioning plan anticipates completion of decommissioning LACBWR, not including the ISFSI, by the end of 2019. The estimated costs of decommissioning the nuclear generating facility are based on the Solutions cost study and decommissioning plan filed with the NRC as part of the license transfer. Costs incurred for decommissioning projects are charged against the decommissioning liability. As costs are incurred, Solutions submits requests for withdrawals to the Cooperative for release of funds from the nuclear decommissioning trust.

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