Dairyland Power Cooperative and Subsidiary

Consolidated Financial Statements as of and
for the Years Ended December 31, 2018 and 2017,
and Independent Auditors' Report

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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, 2018 and 2017, 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, 2018 and 2017, 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 27, 2019

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
ASSETS		
ELECTRIC PLANT:		
Plant and equipment—at original cost	$ 1,798,806	$ 1,760,050
Less accumulated depreciation	(693,337)	(644,353)
Net plant and equipment	1,105,469	1,115,697
Construction work in progress	76,547	66,775
Total electric plant	1,182,016	1,182,472
OTHER ASSETS:		
Nuclear decommissioning funds (Note 4)	1,941	23,114
Investments under debt agreements—marketable securities (Note 4)	-	2,631
Other property and investments (Note 8)	11,258	11,627
Investments in capital term certificates of National Rural Utilities Cooperative Finance Corporation (NRUCFC) (Note 8)	9,176	9,176
Regulatory assets (Note 1)	14,916	24,939
Investment for deferred compensation	1,679	1,890
Deferred charges (Note 1)	16,513	17,546
Total other assets	55,483	90,923
CURRENT ASSETS:		
Cash and cash equivalents	25,599	30,731
Accounts receivable:		
Energy sales—net of allowance for doubtful accounts of $0 for 2018 and $10 for 2017	39,811	40,793
Other	1,352	2,678
Inventories:		
Fossil fuels	44,674	55,075
Materials and supplies	22,828	21,324
Prepaid expenses and other	18,499	15,295
Total current assets	152,763	165,896
TOTAL	$ 1,390,262	$ 1,439,291

(Continued)

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Member and patron equities:		
Membership fees	$ 1	$ 1
Patronage capital (Note 9)	308,540	296,389
Accumulated other comprehensive income (Note 1)	2,487	2,397
Total member and patron equities	311,028	298,787
Long-term obligations (Note 6)	811,988	767,343
Total capitalization	1,123,016	1,066,130
OTHER LIABILITIES:		
Decommissioning and asset retirement obligations (Note 13)	4,911	28,614
Postretirement health insurance obligation (Note 11)	4,260	4,492
Accrued benefits	415	645
Deferred compensation	1,679	1,890
Obligations under capital leases (Note 7)	5,423	5,875
Other deferred credits (Note 1)	58,146	63,494
Total other liabilities	74,834	105,010
COMMITMENTS AND CONTINGENCIES (Note 10)		
CURRENT LIABILITIES:		
Current maturities of long-term obligations and obligations under capital leases	50,809	49,533
Line of credit (Note 5)	79,000	154,000
Nuclear decommissioning obligations (Note 13)	4,319	-
Advances from member cooperatives and other prepayments	11,671	12,461
Accounts payable	27,380	23,425
Accrued expenses:		
Payroll, vacation, and benefits	6,677	6,307
Interest	177	9,195
Property and other taxes	3,390	3,924
Other	8,989	9,306
Total current liabilities	192,412	268,151
TOTAL	$1,390,262	$1,439,291

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, 2018 AND 2017
(In thousands)

	2018	2017
UTILITY OPERATIONS:		
Operating revenues:		
Sales of electric energy	$447,906	$414,194
Other	24,928	27,192
Total operating revenues	472,834	441,386
Operating expenses:		
Fuel	132,360	120,471
Purchased and interchanged power	85,791	66,664
Other operating expenses	107,385	94,438
Depreciation and amortization	59,019	55,000
Maintenance	32,434	37,839
Property and other taxes	9,242	8,842
Total operating expenses	426,231	383,254
Operating margin before interest and other	46,603	58,132
Interest and other:		
Interest expense	39,395	40,679
Allowance for funds used in construction—equity	(1,156)	(1,024)
Other—net	167	203
Total interest and other	38,406	39,858
OPERATING MARGIN	8,197	18,274
NONOPERATING MARGIN (Note 1)	8,326	8,724
NET MARGIN AND EARNINGS	16,523	26,998
OTHER COMPREHENSIVE INCOME—Postretirement health insurance obligation adjustments	90	108
COMPREHENSIVE INCOME	$ 16,613	$ 27,106

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBER AND PATRON EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	Membership Fees	Accumulated Other Comprehensive Income	Patronage Capital	Total Member and Patron Equities
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
Net margin and earnings	-	-	16,523	16,523
Postretirement health insurance obligation adjustments	-	90	-	90
Retirement of capital credits	-	-	(4,372)	(4,372)
BALANCE—December 31, 2018	$ 1	$2,487	$308,540	$311,028

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin and earnings	$ 16,523	$ 26,998
Adjustments to reconcile net margin and earnings to net cash provided by operating activities:		
Loss on disposal of assets	3,690	-
Depreciation and amortization:		
Charged to operating expenses	60,486	55,000
Charged through other operating elements such as fuel expense	1,764	1,798
Allowance for funds used in construction—equity	(1,156)	(1,024)
Unrealized gains on nuclear decommissioning trust investments	(104)	(1,046)
Changes in operating elements:		
Accounts receivable	2,307	(4,167)
Inventories	8,270	2,728
Prepaid expenses and other assets	(3,204)	5,783
Accounts payable	2,144	(20,117)
Accrued expenses and other liabilities	(10,981)	(55,518)
Deferred charges and other	3,889	1,377
Total adjustments	67,105	(15,186)
Net cash provided by operating activities	83,628	11,812
CASH FLOWS FROM INVESTING ACTIVITIES:		
Electric plant additions	(51,838)	(37,490)
Purchase of investments	(42,943)	(190,454)
Proceeds from sale of investments and economic development loans	43,493	190,247
Net cash used in investing activities	(51,288)	(37,697)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit	78,000	182,000
Repayments under line of credit	(153,000)	(136,000)
Borrowings under long-term obligations	10,394	21,665
Repayments of long-term obligations	32,296	(33,404)
Retirement of capital credits	(4,372)	(4,110)
Borrowings of advances from member cooperatives	265,921	255,562
Repayments of advances from member cooperatives	(266,711)	(256,375)
Net cash provided by (used in) financing activities	(37,472)	29,338
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,132)	3,453
CASH AND CASH EQUIVALENTS—Beginning of year	30,731	27,278
CASH AND CASH EQUIVALENTS—End of year	$ 25,599	$ 30,731
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 50,020	$ 42,274
Electric plant additions funded through accounts payable and accrued expenses	$ 11,282	$ 9,470
Electric plant additions under capital leases	$ 2,782	$ 3,015

See notes to consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(All dollar amounts in thousands)

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, 2018 and 2017. 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 3.5% of depreciable plant balances for 2018 and 3.3% for 2017.

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 (4.505% in 2018 and 3.715% in 2017) to certain electric plant additions under construction. The amount of such allowance was $2,386 in 2018 and $1,847 in 2017. The borrowed funds component of AFUDC for 2018 and 2017, was $1,229 and $823, respectively (representing 2.326% and 1.656% in 2018 and 2017, respectively). The equity component of AFUDC for 2018 and 2017 was $1,156 and $1,024, respectively, (representing 2.179% and 2.059% in 2018 and 2017, 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. In 2018 and 2017, the Cooperative realized $28 and $167, 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.

The noncurrent portion of regulatory assets as of December 31, 2018 and 2017, include the following:

	2018	**2017**
Power purchase contract termination fee	$ 4,556	$10,023
Alma 4&5 unrecovered plant balances	10,360	12,432
Seven Mile unrecovered plant balance and termination fee	-	2,484
Total regulatory assets	$14,916	$24,939

Power purchase contract termination fee - 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.

Alma 4 & 5 unrecovered plant balances - 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.

Seven Mile unrecovered plant balance and termination fee - 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 was planned to be amortized through rates over 36 months beginning in July 2017. In 2018 the Board of Directors approved early defeasement of this regulatory asset; the asset was removed from the balance sheet and charged to amortization expense.

The expected following year's portion of these regulatory assets is included in prepaid expenses and other at December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, include the following:

	2018	**2017**
Pension prepayment	$ 8,070	$10,759
Deferred nuclear litigation	1,167	105
Other	7,276	6,682
Total deferred charges	$16,513	$17,546

Pension prepayment - 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.

Deferred nuclear litigation - Litigation expenses from the third nuclear contract damages claim against the United States government are being deferred pending the outcome of that litigation. See further discussion in Note 14.

Other – Costs relating to the Nemadji Trail Energy Center natural gas project are being accumulated in deferred charges. These charges will be amortized when the plant is in service (currently estimated for 2025).

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) began requiring affected electric generating units to hold sufficient allowances to cover emissions of nitrogen oxides. Under these requirements, the

Cooperative is required to surrender one emission allowance per ton of nitrogen oxides emitted, on an annual basis and seasonal basis (May through September "Ozone Season"). Actual emissions during 2018 and 2017 did not require the Cooperative to purchase additional allowances beyond what was allocated under the program. As of December 31, 2018 and 2017, allowances are recorded in inventory at the lower of average cost or net realizable value. The transfer to the EPA for reporting year 2018 allowances (annual and seasonal) occurred on March 1, 2019. The remaining allowances in inventory as of December 31, 2018, will be surrendered to EPA, as applicable, under the terms of the consent decree between Dairyland and the United States and the Sierra Club.

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, 2018, the Cooperative's deferred credits are being considered when determining rates charged to customers.

The noncurrent portion of deferred credits as of December 31, 2018 and 2017, include the following:

	2018	**2017**
Unearned revenue—contract prepayment	$57,286	$63,015
Other	860	479
Total deferred credits	$58,146	$63,494

Unearned Revenue—Contract Prepayment—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 located in Genoa, Wisconsin ("Genoa Station #3"). 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 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 2018 and 2017.

Sales of Electric Energy—Revenues from sales of electric energy are recognized when energy is delivered. The class A wholesale rates approved by 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 2018 and 2017, the power cost adjustment to the class A members resulted in credits to sales billed of $0 and $(1,188), 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, 2018 and 2017.

Nonoperating Margin—The nonoperating margin for the years ended December 31, 2018 and 2017, includes the following:

	2018	2017
Investment income	$7,112	$ 7,841
Investment income on nuclear decommissioning funds:		
Net earnings	447	2,225
Realized gains	56	671
Realized losses and losses due to OTTI	(478)	(1,798)
Provision—recorded as estimated decommissioning liabilities	(25)	(1,098)
Other	1,214	883
Nonoperating margin	$8,326	$ 8,724

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, 2018 and 2017, are as follows:

	2018	2017
Balance—beginning of year	$2,397	$2,289
Recognition in expense:		
Amortization of prior service cost	(102)	(102)
Amortization of unrecognized actuarial gain	(140)	(126)
Actuarial assumption changes	332	336
Net other comprehensive gain	90	108
Balance—end of year	$2,487	$2,397

Concentration of Risk—Approximately 43% of the labor force for the Cooperative is under a collective bargaining agreement that expires January 31, 2023.

Subsequent Events—The Cooperative considered events for recognition or disclosure in the consolidated financial statements that occurred subsequent to December 31, 2018, through March 27, 2019, 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 guidance on the recognition of revenue from contracts with customers, which will supersede nearly all existing revenue recognition guidance under generally accepted accounting principles (GAAP). Under the new standard, entities will recognize revenue to depict the transfer of goods and services to customers in amounts that reflect the payment to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows from an entity's contracts with customers. In August 2015, the FASB issued accounting guidance deferring the effective date by one year. The new guidance will be effective for Dairyland in 2019 and will be adopted using a modified retrospective approach. Management believes the adoption of this new guidance will not have a material impact on the consolidated financial statements and disclosures.

In February 2016, the FASB issued new accounting guidance for leases. The new guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements in the financial statements. In January 2018, the FASB issued additional accounting guidance on leases, amending the guidance issued in 2016, to simplify the transition to the new guidance for land easements. The new guidance will be effective for Dairyland in 2020. Early adoption of the accounting guidance is permitted and must be applied using one of the two prescribed methods. Management is currently evaluating the impact of adoption of this new guidance on the consolidated financial statements and disclosures.

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.

In August 2018, the FASB issued new accounting guidance changing the disclosure requirements for fair value measurement. It applies to all entities that are required to make disclosures about fair value measurements, however, certain disclosures are not required for nonpublic entities. This guidance is effective for the Cooperative in 2020. The Cooperative is currently evaluating the impact this guidance will have on the consolidated financial statements.

In August 2018, the FASB issued new accounting for defined benefit plans. The purpose of the amendment is to modify the disclosure requirements for defined benefit pension and other postretirement plans. This guidance is effective for the Cooperative in 2021. The Cooperative is currently valuating the impact this guidance will have on the consolidated financial statements.

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) are classified as available-for-sale, recorded at fair value, and recorded within Prepaid expenses and other and Nuclear decommissioning funds as of December 31, 2018, and Nuclear decommissioning funds as of December 31, 2017. Investments under debt agreements are classified as available-for-sale and recorded at fair value. Investment balances as of December 31, 2018 and 2017, include the following:

	Fair Value		
2018	**NDT**	**Debt Agreements**	**Total**
Cash and cash equivalents	$ 1,999	$ -	$ 1,999
U.S. government securities	1,673	-	1,673
Corporate bonds	2,588	-	2,588
	$ 6,260	$ -	$ 6,260

	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

Investments under debt agreements represent amounts arising from the sale of assets that are encumbered by mortgages and restricted by RUS for use on future generation and transmission construction projects. During 2018, RUS released the remaining $2,631 which was then applied to capital projects.

The contractual maturities of marketable debt securities, which include U.S. government securities and corporate bonds, as of December 31, 2018, are as follows:

	Fair Value	Cost
Due after 1 year through 5 years	$2,853	$2,840
Due after 5 years through 10 years	1,143	1,152
Due after 10 years	265	278
	$4,261	$4,270

Information regarding the sale of available-for-sale marketable securities, included in the nuclear decommissioning trusts, for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Proceeds from sale of securities	$41,322	$188,543
Realized losses	(394)	(960)

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 $28 and $167 in 2018 and 2017, 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 on the consolidated statements of revenues, expenses, and comprehensive income, 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 $35 and $101 for the years ended December 31, 2018 and 2017, 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 2018 and 2017. Information regarding line of credit balances and activity for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Interest rate at year-end	3.40 %	2.56 %
Total borrowings outstanding at year-end	$ 79,000	$154,000
Average borrowings outstanding during year	$117,000	$151,231

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 $11,652 and $12,444 at December 31, 2018 and 2017, respectively. Interest expense on member cooperative advances was $238 and $194 at December 31, 2018 and 2017, respectively. These amounts have been included in interest expense on the consolidated statements of revenues, expenses, and comprehensive income.

6. LONG-TERM OBLIGATIONS

Long-term obligations as of December 31, 2018 and 2017, consist of the following:

	2018	2017
Federal Financing Bank obligations—1.93%—4.46%	$452,116	$393,223
Federal Financing Bank obligations—4.52%—6.80%	304,988	307,675
Total Federal Financing Bank	757,104	700,898
RUS obligations—4.125% and grant funds	3,987	4,423
CoBank notes—2.6%, 2.9%, 4.3%, 6.2%, and 7.4%	18,191	25,123
Private bonds placement obligations—3.42%	80,833	84,166
Long-term debt	860,115	814,610
Less current maturities	(48,127)	(47,267)
Total long-term obligations	$811,988	$767,343

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 $162,186 and $195,657 as of December 31, 2018 and 2017, 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 3.4%. 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 $11,432 and $14,794 at December 31, 2018 and 2017, 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, 2018.

Scheduled maturities of the Cooperative's long-term obligations as of December 31, 2018, were as follows:

Years Ending December 31	
2019	$ 48,127
2020	48,403
2021	47,791
2022	47,043
2023	46,675
Thereafter	622,076
Total	$860,115

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 $681 and $500 in 2018 and 2017, respectively. The schedule of future minimum lease payments as of December 31, 2018, is as follows:

Years Ending December 31	
2019	$ 606
2020	445
2021	349
2022	135
2023	33
Thereafter	-
Total	$1,568

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. Property under capital leases as of December 31, 2018 included various substation, office equipment, mining equipment, and railcars with an original cost of $15,944. The assets are amortized over the lesser of their related lease terms or their estimated productive lives. The schedule of future minimum lease payments as of December 31, 2018, is as follows:

Years Ending December 31	
2019	$2,881
2020	2,544
2021	1,793
2022	1,043
2023	404
Thereafter	22
Total minimum lease payments	8,687
Amounts representing interest	(582)
Present value of minimum lease payments	8,105
Current maturities	(2,682)
Long-term capital lease obligations	$5,423

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, 2018 and 2017, is estimated to be as follows:

	2018		2017	
	Recorded Value	**Fair Value**	**Recorded Value**	**Fair Value**
Assets:				
Other property and investments	$ 11,258	$ 11,258	$ 11,627	$ 11,627
Investments in capital term certificates of NRUCFC	9,176	9,176	9,176	9,176
Liabilities—long-term obligations	860,115	1,101,565	814,610	1,110,071

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, 2018 and 2017, aggregated by the level in the fair value hierarchy within which those measurements fall:

		Fair Value Measurements Using		
2018	**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	$ 6,260	$ 6,260	$ -	$ -
Other property and investments	11,258	1,070	-	10,188
Investments in capital term certificates of NRUCFC	9,176	-	-	9,176
Investment for deferred compensation	1,829	-	1,829	-
	$ 28,523	$ 7,330	$ 1,829	$ 19,364

2017	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	$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 NRUCFC	9,176	-	-	9,176
Investment for deferred compensation	1,955	-	1,955	-
	$48,503	$24,227	$4,586	$19,690

In 2018 there were no transfers between Levels 1, 2, and 3. The changes in Level 3 recurring fair value measurements using significant unobservable inputs for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Other property and investments:		
Balance—beginning of year	$10,514	$10,348
New investment and loans made	1,450	1,400
Loan repayments received and current maturities	(103)	43
Patronage capital allocations	177	223
Refunds of deposits	(1,850)	(1,500)
Balance—end of year	$10,188	$10,514

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, 2018 and 2017, are as follows:

	Assigned	Unassigned	Total
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
Retirement of capital credits	(4,372)	-	(4,372)
Current year margins	7,041	9,482	16,523
Balance—December 31, 2018	$221,293	$87,247	$308,540

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 five-year terms. The estimated commitments under these contracts as of December 31, 2018, is as follows:

Years Ending December 31	
2019	$ 89,229
2020	81,903
2021	10,127
2022	10,168
2023	10,189
Total	$201,616

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 2018 and 2017 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 the RS Plan was $12,133 in 2018 and $11,619 in 2017. The 2018 expense includes contributions to the plan of $9,443 and $2,690 of prepayment amortization. The 2017 expense includes contributions to the plan of $8,929 and $2,690 of prepayment amortization.

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, 2018 and 2017, 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, 2018 and 2017, are as follows:

	2018	2017
Amount recognized in the consolidated balance sheets:		
Total accrued qualified and nonqualified benefit obligation	$ 4,597	$ 4,769
Less current portion included in accrued expenses—other	(337)	(277)
Long-term portion	$ 4,260	$ 4,492
Change in benefit obligation:		
APBO—beginning of year	$ 4,769	$ 4,956
Service cost	283	262
Interest cost	154	175
Actuarial loss	(332)	(336)
Benefits paid	(277)	(288)
APBO—end of year	$ 4,597	$ 4,769
Funded status of plan—December 31	$(4,597)	$(4,769)
Accrued postretirement health insurance obligations recorded at year-end	$ 4,597	$ 4,769
Change in plan assets:		
Employer contribution	$ (277)	$ (288)
Benefits paid	277	288
	$ -	$ -
Change in accumulated other comprehensive income:		
Net income at prior measurement date	$ 2,397	$ 2,289
Actuarial assumption changes	332	336
Recognition in expense:		
Amortization of prior service cost	(102)	(102)
Amortization of unrecognized actuarial gain	(140)	(126)
Accumulated other comprehensive income	$ 2,487	$ 2,397
Components of net periodic postretirement benefit cost:		
Service cost—benefits attributed to service during the year	$ 283	$ 262
Interest cost on accrued postretirement health insurance obligation	154	175
Amortization of prior service cost	(102)	(102)
Amortization of unrecognized actuarial gain	(140)	(126)
Net periodic postretirement benefit expense	$ 195	$ 209

Employer cash contributions expected to be made to the plan during the fiscal year ending December 31, 2019, is $337. The amount of accumulated other comprehensive income expected to be recognized during the fiscal year ending December 31, 2019, is an actuarial gain of $154 and amortization of prior service cost of $65.

For measurement purposes, a 3.97% and 3.32% discount rate was assumed for 2018 and 2017, respectively, to determine net periodic benefit cost. The 2018 and 2017 annual health care cost increase assumed is 6.70% and 6.80%, 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 $72 and the end-of-year APBO by $473. A one percentage point decrease in the assumed health care cost trend rates would decrease the total of service and interest cost components by $59 and the end-of-year APBO by $406.

Estimated future benefit payments from the plan as of December 31, 2018, are as follows:

Years Ending December 31	
2019	$ 337
2020	325
2021	302
2022	281
2023	279
2024–2028	1,675

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 $1,198 and $1,242 for 2018 and 2017, 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 $1,829 and $1,955 as of December 31, 2018 and 2017, 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 $10,001 and $9,248 for 2018 and 2017, respectively. The liability for these plans of $46 and $45 as of December 31, 2018 and 2017, respectively, are recorded in accrued expenses on the consolidated balance sheets.

12. RELATED-PARTY TRANSACTIONS

The Cooperative provides electric and other services to its class A members. The Cooperative received revenue of $388,140 and $363,603 in 2018 and 2017, respectively, for these services. The Cooperative has accounts receivable from its class A members of $35,968 and $37,892 as of December 31, 2018 and 2017, respectively.

The Cooperative has advances from class A members of $11,652 and $12,444 as of December 31, 2018 and 2017, 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 $238 and $194 as of December 31, 2018 and 2017, respectively.

13. 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 $6,260 and $23,114 as of December 31, 2018 and 2017, respectively, are outside the Cooperative's administrative control and are available solely to satisfy the future costs of decommissioning. Of the obligations and assets related to the decommissioning trust, $4,319 are classified as current as of December 31, 2018 given the decommissioning is expected to be completed in 2019. The remaining $1,491 is related to the annual ISFSI costs that will remain after completion of the decommissioning.

Nuclear decommissioning and other asset retirement obligations as of December 31, 2018 and 2017, are as follows:

	Nuclear	Other	Total
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
Increase in estimated obligation	44	-	44
Incurred costs on projects	(16,898)	(2,530)	(19,428)
Balance—December 31, 2018	$ 6,260	$ 2,970	$ 9,230

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.

14. 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 previously. The remaining net amount of $47,636 was refunded to Class A members in February 2017.

In late 2018, the Cooperative filed a third contract damages claim to recover its costs generally incurred from 2013 through 2018. The claim is proceeding through the legal process.

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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